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

FORM 10-K

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

For the Fiscal Year Ended May 26, 2019, or

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

For the Transition period for _________ to _________.

Commission file number: **0-27446**

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

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

5201 Great America Pkwy Suite 232
Santa Clara, California 95054
(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	Trading Symbol	Name of each exchange on which registered
Common Stock	LNDC	The NASDAQ Global Select Stock Market

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

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

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

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

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

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

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

Large Accelerated Filer ___	Accelerated Filer _X_	Emerging Growth Company ___
Non Accelerated Filer ___	Smaller Reporting Company ___	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ___

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $351,940,000 as of November 23, 2018, the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sales price on The NASDAQ Global Select Market reported for such date. Shares of Common Stock held by each officer and director and by each person who owns 10% or more of the outstanding Common Stock have been excluded from such calculation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of July 26, 2019, there were 29,146,293 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its October 2019 Annual Meeting of Stockholders which statement will be filed not later than 120 days after the end of the fiscal year covered by this report, are incorporated by reference in Part III hereof.

LANDEC CORPORATION
ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

PART I
Note About Forward-Looking Statements

This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements regarding future events and our future results that are subject to the safe harbor created under the Private Securities Litigation Reform Act of 1995 and other safe harbors under the Securities Act of 1933 and the Securities Exchange Act of 1934. Words such as “projected,” “expects,” “believes,” “intends,” “assumes” and similar expressions are used to identify forward-looking statements. These statements are made based upon current expectations and projections about our business and assumptions made by our management and are not guarantees of future performance, nor do we assume any obligation to update such forward-looking statements after the date this report is filed. Our actual results could differ materially from those projected in the forward-looking statements for many reasons, including the risk factors listed in Item 1A. “Risk Factors” and the factors discussed below.

Item 1. *Business*

Corporate Overview

Landec Corporation and its subsidiaries (“Landec” or the “Company”) design, develop, manufacture and sell differentiated health and wellness products for food and biomaterials markets. There continues to be a dramatic shift in consumer behavior to healthier eating habits and preventive wellness to improve quality of life. In our Curation Foods, Inc. business (formerly known as Apio, Inc., see below for further discussion on the renaming of our natural foods business), we are committed to offering healthy, fresh produce products conveniently packaged to consumers. In our Lifecore Biomedical, Inc. (“Lifecore”) biomaterials business, we commercialize products that enable people to stay more active as they grow older.

Landec’s Curation Foods and Lifecore businesses utilize polymer chemistry technology, a key differentiating factor. Both businesses focus on business-to-business selling such as selling directly to retail grocery store chains and club stores for Curation Foods and directly to partners in the medical device and pharmaceutical markets for Lifecore.

With the discontinuation of the Food Export business in the fourth quarter of fiscal 2018, Landec has three reportable business segments – Curation Foods and Lifecore, each of which is described below, and an Other segment. During the fourth quarter of fiscal year 2019 the Company discontinued its Now Planting® business. The operating results for the Food Export and Now Planting businesses are presented as a discontinued operation in the Company's accompanying Consolidated Financial Statements and the financial results for fiscal years 2019, 2018, and 2017.

Curation Foods

On January 11, 2019, the Company marked the completion of its transition from a packaged fresh vegetables company to a branded, natural foods company by changing the name of its food business from Apio, Inc (“Apio”) to Curation Foods, Inc. Curation Foods will serve as the corporate umbrella for a portfolio of four natural food brands, including the Company’s flagship brand Eat Smart® as well as its three emerging natural foods brands, O Olive Oil & Vinegar® ("*O*") products, and Yucatan® and Cabo Fresh® authentic guacamole and avocado products that were acquired by the Company through the acquisition of Yucatan Foods, Inc. on December 1, 2018.

The Company sells specialty packaged Eat Smart branded salads and private label fresh-cut vegetables and whole produce to retailers, club stores, and food service operators, primarily in the United States and Canada. The Company also sells premier California specialty *O* olive oils and wine vinegars to natural food, conventional grocery and mass retail stores primarily in the United States and Canada. The majority of Yucatan and Cabo Fresh guacamole and avocado food products are sold in the U.S. grocery channel, but they are also sold in U.S. mass retail, Canadian grocery retail and foodservice channels.

The Eat Smart brand combines our proprietary BreatheWay® food packaging technology with the capabilities of a large national food supplier and value-added produce processor to foodservice operators, as well as under private labels. Within the Eat Smart brand, produce is processed by trimming, washing, sorting, blending, and packaging into bags and trays that in most cases incorporate Landec’s BreatheWay membrane technology. The BreatheWay membrane increases shelf-life and reduces shrink (waste) for retailers and helps to ensure that consumers receive fresh produce by the time the product makes its way through the distribution chain. Curation Foods also generates revenue from the sale and/or use of its BreatheWay technology by partners such as Windset Holding 2010 Ltd., a Canadian corporation (“Windset”), for packaging of greenhouse grown cucumbers and peppers.

Lifecore

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

Landec was incorporated in California on October 31, 1986 and reincorporated as a Delaware corporation on November 6, 2008. Our common stock is listed on The NASDAQ Global Select Market under the symbol “LNDC”. The Company’s principal executive offices are located at 5201 Great America Parkway, Suite 232, Santa Clara, California 95054, and the telephone number is (650) 306-1650.

Description of Core Business

Landec operates its business in three reportable business segments: Curation Foods, Lifecore, and Other.

Curation Foods

The Curation Foods business is comprised of Curation Foods' packaged fresh vegetables business sold primarily under the Eat Smart brand, *O* branded olive oils and wine vinegars, and Yucatan and Cabo Fresh guacamole and avocado food products.

Eat Smart Packaged Fresh Vegetables

Based in Santa Maria, California, Curation Foods’ primary business is the processing, marketing and selling of vegetable-based salads and fresh-cut and whole vegetable products primarily packaged in its proprietary BreatheWay packaging. The packaged fresh vegetables business markets a variety of salads and fresh-cut and whole vegetables to the top retail grocery chains, club stores, and food service operators.

There are four major distinguishing characteristics of Curation Foods that provide competitive advantages in the Company's Eat Smart packaged fresh vegetables market:

Packaged Salads and Vegetables Supplier: Curation Foods has structured its packaged fresh vegetables business as a marketer and seller of branded and private label blended, salads and fresh-cut and whole vegetable products. It is focused on selling products primarily under its Eat Smart brand and private label brands. As retail grocery chains, club stores and food service operators consolidate, Curation Foods is well positioned as a single source of a broad range of products.

Nationwide Processing and Distribution: Curation Foods has strategically invested in its salads and fresh-cut vegetables business. Curation Foods’ largest processing plant is in Guadalupe, CA, and is automated with state-of-the-art vegetable processing equipment in one of the lower cost, growing regions in California, the Santa Maria Valley. Curation Foods also has three East Coast processing facilities and five East Coast distribution centers for nationwide delivery of all of its packaged salads and vegetable products in order to meet the next-day delivery needs of customers.

Expanded Product Line Using Technology and Unique Blends: Curation Foods is introducing new salads and packaged vegetable products each year, and many of these products use our BreatheWay packaging technology to extend shelf-life. These new product offerings range from various sizes of fresh-cut bagged products, to vegetable trays, to whole produce, to vegetable salads and to snack packs. During the last twelve months, Curation Foods introduced twenty new unique products.

Products Currently in Approximately 67% of North American Retail Grocery Stores: Curation Foods' packaged fresh vegetables business has products in approximately 67% of all North American retail grocery stores. This gives Curation Foods the opportunity to sell new products to existing customers and to increase distribution of its approximately 120 unique packaged fresh vegetable products within those customers.

Most vegetable products packaged in the Company's BreatheWay packaging have a shelf-life of approximately 17 days. In addition to packaging innovation, the Company has developed innovative blends and combinations of vegetables that are sold in flexible film bags or rigid trays. The Company has launched a family of salad kits that are comprised of "superfood" mixtures of vegetables with healthy toppings and dressings. The first salad kit to launch under the Eat Smart brand was Sweet Kale Salad, which now has significant distribution throughout club and retail stores in North America. Additionally, we have launched under the Eat Smart brand several other superfood salad kits including Chopped and Crumble™ salads, Southwest Salad, and Asian Sesame Salad to name a few and, more recently, a line of single-serve salads under our Salad Shake-Ups!™ brand. The Company's expertise includes accessing leading culinary experts and nutritionists nationally to help in the new product development process. We believe that the Company's new products are "on trend" and strong market acceptance supports this belief. Recent statistics show that more than two-thirds of adults are considered to be overweight or obese. More and more consumers are beginning to make better food choices in their schools, homes, and in restaurants and that is where our Eat Smart products can fit into consumers' daily healthy food choices.

The Company also periodically licenses its BreatheWay packaging technology to partners for packaging fruits and vegetables, and Windset for packaging peppers and cucumbers that are grown hydroponically in greenhouses. These packaging license relationships generate revenues either from product sales or royalties once commercialized. The Company is engaged in the testing and development of other BreatheWay products. Landec manufactures its BreatheWay packaging through selected qualified contract manufacturers.

Windset

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

O Olive Oils & Vinegars

The Company acquired *O* on March 1, 2017. O, founded in 1995, is based in Petaluma, California, and is the premier producer of California specialty olive oils and wine vinegars. Its products are sold in natural food, conventional grocery and mass retail stores, primarily in the United States and Canada.

Yucatan and Cabo Fresh

The Company acquired Yucatan Foods on December 1, 2018. Yucatan Foods, founded in 1991, is based in Los Angeles, California. As part of the acquisition of Yucatan Foods, Curation Foods acquired the newly built production facility in Guanajuato, Mexico. The Yucatan Foods business adds another double-digit growth platform, a lower-cost infrastructure in Mexico, and higher margin product offerings that generally exhibit less sourcing volatility.

Lifecore

Lifecore is involved in the manufacture of pharmaceutical-grade sodium hyaluronate in bulk form as well as formulated and filled syringes and vials for injectable products used in treating a broad spectrum of medical conditions and procedures. Lifecore leverages its fermentation process to manufacture premium, pharmaceutical-grade HA and uses its aseptic filling capabilities to deliver private-label HA and non-HA finished products to its customers.

Lifecore provides product development services to its partners for HA-based, as well as non-HA based, aseptically formulated and filled products. These services include activities such as technology transfer, material component changes, analytical method development, formulation development, pilot studies, stability studies, process validation, and production of materials for clinical studies.

Lifecore uses its fermentation process and aseptic formulation and filling expertise to be a leader in the development of HA-based products for multiple applications and to take advantage of non-HA device and drug opportunities which leverage its expertise in manufacturing and aseptic syringe filling capabilities. Elements of Lifecore's strategy include the following:

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

Expand medical applications for HA: Due to the growing knowledge of the unique characteristics of HA, and the role it plays in normal physiology, Lifecore continues to identify and pursue opportunities for the use of HA in other medical applications, such as wound care, aesthetic surgery, drug delivery, next generation orthopedics and device coatings, and through sales to academic and corporate research customers. Further applications may involve expanding process development activity and/or additional licensing of technology.

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

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

Other

Included in the Other segment is Corporate, which includes corporate general and administrative expenses, non-Curation Foods and non-Lifecore interest income and income tax expenses.

Technology Overview

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

Intelimer Polymers

Intelimer polymers are crystalline, hydrophobic polymers that use a temperature switch to control and modulate properties such as viscosity, permeability and adhesion when varying the materials' temperature above and below the temperature switch. The sharp temperature switch is adjustable at relatively low temperatures (0°C to 100°C) and the changes resulting from the temperature switch are relatively easy to maintain in industrial and commercial environments. For instance, Intelimer polymers can change within the range of one or two degrees Celsius from a non-adhesive state to a highly tacky, adhesive state; from an impermeable state to a highly permeable state; or from a solid state to a viscous liquid state.

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

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

BreatheWay Membrane Packaging

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

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

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

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

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

Sodium Hyaluronate (HA)

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

Sodium hyaluronate was first demonstrated to have commercial medical utility as a viscoelastic solution in cataract surgery. In this application, it is used for maintaining the space in the anterior chamber and protecting corneal tissue during the removal and implantation of intraocular lenses. HA-based products have gained widespread acceptance in ophthalmology and are currently used in the majority of cataract extraction procedures in the world. HA has also become a significant component in several products used in orthopedics. Lifecore’s HA is used as a viscous carrier for allogeneic freeze-dried demineralized bone used in spinal surgery, and as the active component of devices to treat the symptoms of osteoarthritis, and as a component to provide increased lubricity to medical devices. Lifecore’s HA has also been utilized in veterinary drug applications to treat traumatic arthritis.

Sales and Marketing

Curation Foods is supported by dedicated sales and marketing resources located in central California and throughout the U.S. and Canada.

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

Seasonality

Curation Foods' can be affected by seasonal weather factors, which can result in higher costs of sourcing product due to a shortage of essential produce items. Lifecore is not significantly affected by seasonality.

Manufacturing and Processing

Curation Foods

Eat Smart Packaged Fresh Vegetables

Packaged fresh vegetable products and fresh-cut packaged green beans are processed in the Company's facilities located in Guadalupe, California; Bowling Green, Ohio; Hanover, Pennsylvania; and Vero Beach, Florida. Cooling of produce is done through third parties and its own in-house cooling through its various cooling systems.

BreatheWay packaging products are comprised of polymer manufacturing, membrane manufacturing, and label package conversion. Contract manufacturers currently make virtually all of the polymers for the BreatheWay packaging system and breathable membranes. The Company performs the label package conversion in its various processing facilities.

O Olive Oils & Vinegars

O uses third parties to crush, process, and bottle its olive oil products, primarily within California. The fermentation, production, and processing of vinegar is performed at the Company's facility in Petaluma, California, using ingredients sourced from various third parties primarily within California. *O* uses third parties in California to bottle its vinegar products.

Yucatan and Cabo Fresh

Guacamole for the Yucatan and Cabo Fresh brands is primarily produced and packed at the Company's facility in Guanajuato, Mexico, using ingredients sourced from various third parties within the United States and Mexico.

Lifecore

The commercial production of HA requires fermentation, separation, and purification and aseptic processing capabilities. HA can primarily be produced in two ways, either through bacterial fermentation or through extraction from rooster combs. Lifecore produces HA only from fermentation, using an extremely efficient microbial fermentation process and a highly effective purification operation.

Lifecore’s facilities in Chaska, Minnesota are used primarily for the HA and non-HA manufacturing process, formulation, aseptic syringe and vial filling, analytical services, secondary packaging, warehousing raw materials and finished goods, and distribution. Lifecore provides versatility in the manufacturing of various types of finished products and supplies several different forms of HA and non-HA products in a variety of molecular weight fractions as powders, solutions and gels, and in a variety of bulk and single-use finished packages. The Company believes that its current manufacturing capacity plan will be sufficient to allow it to meet the needs of its current customers for the foreseeable future.

Patents and Proprietary Rights

The Company's success depends in large part on its ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. The Company has had approximately 50 U.S. patents issued of which 23 remain active as of May 26, 2019 with expiration dates ranging from 2019 to 2031. 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, 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.

Government Regulation

Curation Foods

The Company’s food products and operations are also subject to regulation by various foreign, federal, state, and local agencies, with respect to production processes, product attributes, packaging, labeling, advertising, import, export, storage, transportation and distribution.

In the US, food products are primarily regulated by the Food and Drug Administration (FDA), which has the authority to inspect the Company’s food facilities, and regulates, among other things, food manufacturing, food packing and holding, food additives, food safety, the growing and harvesting of produce intended for human consumption, food transportation, food labeling, food packaging, and food supplier controls including foreign supplier verification. In addition, advertising of our products is subject to regulation by the Federal Trade Commission (FTC), and operations are subject to certain health and safety regulations, such as those issued under the Occupational Safety and Health Act (OSHA). All of our US facilities and food products must be in compliance with the Federal Food, Drug, and Cosmetic Act (FDC Act) as amended by, among other things, the FDA Food Safety Modernization Act (FSMA). In addition, our operations in Mexico are subject to Mexican regulations through the SAGARPA, and our food products sold into Canada must be in compliance with applicable Canadian food safety and labeling regulations.

Lifecore

The FDA regulates and/or approves the clinical trials, manufacturing, labeling, distribution, import, export, sale and promotion of medical devices and drug products in or from the United States. Some of the Company’s and its customers’ products are subject to extensive and rigorous regulation by the FDA, which regulates some of the products as medical devices or drug products, that in some cases require FDA Approval or clearance, prior to U.S. distribution of Pre-Market Approval (PMA), or New Drug Applications (NDA), or Pre-Market Notifications, or other submissions and by foreign countries, which regulate some of the products as medical devices or drug products.

Other regulatory requirements are placed on the design, manufacture, processing, packaging, labeling, distribution, record-keeping and reporting of a medical device or drug products and on the quality control procedures. For example, medical device and drug manufacturing facilities are subject to periodic inspections by the FDA to assure compliance with device and/or drug requirements, as applicable. The FDA also conducts pre-approval inspections for PMA and NDA product introduction. Lifecore’s facility is subject to inspections as both a device and a drug manufacturing operation. For PMA devices and NDA drug products, the company that owns the product submission is required to submit an annual report and also to obtain approval, as applicable, for modifications to the device, drug product or its labeling. Similarly, companies that own FDA Pre-Market Notifications for marketed products must obtain additional FDA clearance for certain modifications to their devices or labeling. Other applicable FDA requirements include but are not limited to reporting requirements such as the medical device reporting regulation, which requires certain companies to provide information to the FDA regarding deaths or serious injuries alleged to have been associated with the use of its devices, as well as product malfunctions that would likely cause or contribute to death or serious injury if the malfunction were to recur. FDA also maintains adverse event reporting requirements for drug products, among other post-market regulatory requirements.

Employees

As of May 26, 2019, Landec had 736 full-time employees, of whom 585 were dedicated to research, development, manufacturing, quality control and regulatory affairs, and 151 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 are represented by a union, and Landec considers its relationship with its employees to be good.

Available Information

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

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

Landec desires to take advantage of the “Safe Harbor” provisions of the Private Securities Litigation Reform Act of 1995 and of Section 21E and Rule 3b-6 under the Securities Exchange Act of 1934. Specifically, Landec wishes to alert readers that the following important factors could in the future affect, and in the past have affected, Landec’s actual results and could cause Landec’s results for future periods to differ materially from those expressed in any forward-looking statements made by, or on behalf, of Landec. Landec assumes no obligation to update such forward-looking statements.

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

Our Packaged Fresh Vegetables business is subject to weather conditions that affect commodity prices, crop quality and yields, and crop varieties to be planted. Crop diseases and severe conditions, particularly weather conditions such as unexpected or excessive rain or other precipitation, unseasonable temperature fluctuations, floods, droughts, frosts, windstorms, earthquakes and hurricanes, may adversely affect the supply of vegetables and fruits used in our business, which could reduce the sales volumes and/or increase the unit production costs. The Company regularly experiences significant product sourcing issues as a result of severe adverse weather conditions that materially adversely affected the Company’s financial results. Because a significant portion of the costs are fixed and contracted in advance of each operating year, volume declines reflecting production interruptions or other factors could result in increases in unit production costs which could result in substantial losses and weaken our financial condition.

Our Sale of Some Products May Expose Us to Product Liability Claims

The testing, manufacturing, marketing, and sale of the products we develop involve an inherent risk of allegations of product liability, including foodborne illness. If any of our products are determined or alleged to be contaminated or defective or to have caused an illness, injury or harmful accident to an end-customer, we could incur substantial costs in responding to complaints or litigation regarding our products and our product brand image could be materially damaged. Such events may have a material adverse effect on our business, operating results and financial condition. In addition, we may be required to participate in product recalls or we may voluntarily initiate a recall as a result of various industry or business practices or the need to maintain good customer relationships.

Although we have taken and intend to continue to take what we consider to be appropriate precautions to minimize exposure to product liability claims, we may not be able to avoid significant liability. We currently maintain product liability insurance. While we think the coverage and limits are consistent with industry standards, our coverage may not be adequate or may not continue to be available at an acceptable cost, if at all. A product liability claim, product recall or other claim with respect to uninsured liabilities or in excess of insured liabilities could have a material adverse effect on our business, operating results and financial condition.

We Are Subject to Increasing Competition in the Marketplace

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

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

In the past, our results of operations have fluctuated significantly from quarter to quarter and are expected to continue to fluctuate in the future. Curation Foods can be affected by seasonal and weather-related factors which have impacted our financial results in the past due to shortages of essential value-added produce items. In addition, the fair market value change in our Windset investment can fluctuate substantially quarter to quarter. Lifecore can be affected by the timing of orders from its relatively small customer base and the timing of the shipment of those orders. Our earnings may also fluctuate based on our ability to collect accounts receivable from customers and notes receivable from growers and on price fluctuations in the fresh vegetable and fruit markets. Other factors that affect our operations include:

- our ability and our growers' ability to obtain an adequate supply of labor,
- our growers' ability to obtain an adequate supply of water,
- the seasonality and availability and quantity of our supplies,
- our ability to process produce during critical harvest periods,
- the timing and effects of ripening,
- the degree of perishability,
- the effectiveness of worldwide distribution systems,
- total worldwide industry volumes,
- the seasonality and timing of consumer demand,
- foreign currency fluctuations, and
- foreign importation restrictions and foreign political risks.

As a result of these and other factors, we expect to continue to experience fluctuations in quarterly operating results.

Our Operations Are Subject to Regulations that Directly Impact Our Business

Our products and operations are subject to governmental regulation in the United States and foreign countries. The manufacture of our products is subject to detailed standards for product development, manufacturing controls, ongoing quality monitoring and analysis, and periodic inspection by regulatory authorities. We may not be able to obtain necessary regulatory approvals on a timely basis or at all. Delays in receipt of or failure to receive approvals or loss of previously received approvals would have a material adverse effect on our business, financial condition and results of operations. A significant portion of Curation Foods's manufacturing workforce is provided by third-party labor contractors. The Company relies upon these contractors to validate the worker's immigration status and their eligibility to work in the Company's facilities, and failure of these contractors' control processes or our internal control processes could result in Curation Foods not complying with applicable regulations. Although we have no reason to believe that we will not be able to comply with all applicable regulations regarding the manufacture and sale of our products and polymer materials, regulations are always subject to change and depend heavily on administrative interpretations and the country in which the products are sold. Future changes in regulations or interpretations relating to matters such as safe working conditions, laboratory and manufacturing practices, produce safety, environmental controls, and disposal of hazardous or potentially hazardous substances may adversely affect our business.

Our food operations are subject to regulation by the FDA, FTC, and other governmental entities. Applicable laws and regulations are subject to change from time to time and could impact how we manage the production, labeling, and sale of our food products. We are subject, for example, to FDA compliance and regulations concerning the safety of the food products handled and sold by Curation Foods, and the facilities in which they are packed, processed, and stored. Failure to comply with the applicable regulatory requirements can, among other things, result in:

- the issuance of adverse inspectional observations,
- Warning or Courtesy Letters,
- import refusals,
- fines, injunctions, civil penalties, and facility suspensions,
- withdrawal of regulatory approvals or registrations,
- product recalls and product seizures, including cessation of manufacturing and sales,
- operating restrictions, and
- criminal prosecution.

Compliance with foreign, federal, state, and local laws and regulations is costly and time-consuming. We may be required to incur significant costs to comply with the laws and regulations in the future which may have a material adverse effect on our business, operating results and financial condition.

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

Our Curation Foods business is subject to the Perishable Agricultural Commodities Act (“PACA”). PACA regulates fair trade standards in the fresh produce industry and governs all the products sold by Curation Foods. Our failure to comply with the PACA requirements could among other things, result in civil penalties, suspension or revocation of a license to sell produce, and in the most egregious cases, criminal prosecution, which could have a material adverse effect on our business. In addition, the FTC and other state authorities regulate how we promote and advertise our food products, and we could be the target of claims relating to alleged false or deceptive advertising under federal, state, and local laws and regulations.

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

In addition, most of the existing products being sold by Lifecore and its customers are subject to continued regulation by the FDA, various state agencies and foreign regulatory agencies, which regulate the design, nonclinical and clinical research studies, manufacturing, labeling, distribution, post-marketing product modifications, advertising, promotion, import, export, adverse event and other reporting, and record keeping procedures for such products. Aseptic processing and shared equipment manufacturing require specific quality controls. If we fail to achieve and maintain these controls, we may have to recall product, or may have to reduce or suspend production while we address any deficiencies. Marketing clearances or approvals by regulatory agencies can be withdrawn due to failure to comply with regulatory standards or the occurrence of unforeseen problems following initial clearance or approval. These agencies can also limit or prevent the manufacture or distribution of Lifecore’s products or change or increase the regulatory requirements applicable to such products. A determination that Lifecore is in violation of such regulations could lead to the issuance of adverse inspectional observations, a Warning Letter, imposition of civil penalties, including fines, product recalls or product seizures, preclusion of product import or export, a hold or delay in pending product approvals, withdrawal of marketing authorizations, injunctions against product manufacture and distribution, and, in extreme cases, criminal sanctions.

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

Any New Business Acquisition Will Involve Uncertainty Relating to Integration

We completed the Yucatan acquisition in December, 2018, and the *O* acquisition in March, 2017. We have acquired other businesses in the past and may make additional acquisitions in the future. The successful integration of new business acquisitions may require substantial effort from the Company's management. The diversion of the attention of management and any difficulties encountered in the transition process could have a material adverse effect on the Company's ability to realize the anticipated benefits of the acquisitions. The successful combination of new businesses also requires coordination of research and development activities, manufacturing, sales and marketing efforts. In addition, the process of combining organizations located in different geographic regions could cause the interruption of, or a loss of momentum in, the Company's activities. There can be no assurance that the Company will be able to retain key management, technical, sales and customer support personnel, or that the Company will realize the anticipated benefits of any acquisitions, and the failure to do so would have a material adverse effect on the Company's business, results of operations and financial condition.

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

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

price,
safety,
efficacy,
reliability,
conversion costs,
regulatory approvals,
marketing and sales efforts, and
general economic conditions affecting purchasing patterns.

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

Changes to U.S. Trade Policy, Tariff and Import/Export Regulations May Have a Material Adverse Effect on our Business

Changes in U.S. or international social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories or countries where we currently sell our products or conduct our business, as well as any negative sentiment toward the U.S. as a result of such changes, could adversely affect our business. The U.S. presidential administration has instituted or proposed changes in trade policies that include the negotiation or termination of trade agreements, the imposition of higher tariffs on imports into the U.S., economic sanctions on individuals, corporations or countries, and other government regulations affecting trade between the U.S. and other countries where we conduct our business.

As a result of recent policy changes of the U.S. presidential administration and recent U.S. government proposals, there may be greater restrictions and economic disincentives on international trade. The new tariffs and other changes in U.S. trade policy could trigger retaliatory actions by affected countries, and certain foreign governments have instituted or are considering imposing trade sanctions on certain U.S. goods. Such changes have the potential to adversely impact the U.S. economy or certain sectors thereof, our industry and the global demand for our products, and as a result, could have a material adverse effect on our business, financial condition and results of operations.

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

We have been subject in the past, and may be in the future, to claims by employees based on allegations of discrimination, negligence, harassment and inadvertent employment of undocumented workers or unlicensed personnel, and we may be subject to payment of workers' compensation claims and other similar claims. We could incur substantial costs and our management could spend a significant amount of time responding to such complaints or litigation regarding employee claims, which may have a material adverse effect on our business, operating results and financial condition. In addition, several recent decisions by the United States NLRB have found companies, such as Curation Foods, which use contract employees could be found to be “joint employers” with the staffing firm.

We Have a Concentration of Manufacturing for Curation Foods and Lifecore and May Have to Depend on Third Parties to Manufacture Our Products

Any disruptions in our primary manufacturing operations at Curation Foods' facilities in Guadalupe, CA, Bowling Green, OH, Hanover, PA, or Guanajuato, Mexico, or Lifecore’s facilities in Chaska, MN would reduce our ability to sell our products and would have a material adverse effect on our financial results. Additionally, we may need to consider seeking collaborative arrangements with other companies to manufacture our products. If we become dependent upon third parties for the manufacture of our products, our profit margins and our ability to develop and deliver those products on a timely basis may be adversely affected. In that event, additional regulatory inspections or approvals may be required, and additional quality control measures would need to be implemented. Failures by third parties may impair our ability to deliver products on a timely basis and impair our competitive position. We may not be able to continue to successfully operate our manufacturing operations at acceptable costs, with acceptable yields, and retain adequately trained personnel.

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

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

We Are Subject to the Risks of Doing Business Internationally

We are subject to the risks of doing business internationally. We conduct a substantial amount of business with growers and customers who are located outside the United States. We purchase avocados from foreign growers and packers, sell fresh avocados and processed avocado products to foreign customers, and operate a production facility in Mexico. In the most recent years, there has been an increase in organized crime in Mexico. Further, in July of 2018, Mexico elected a new president to office, Andres Manuel Lopez Obrador. Neither the increase in organized crime nor the election of a new president in Mexico has had a significant impact on our operations, but both highlight certain risks of doing business abroad. We are also subject to regulations imposed by the Mexican government and to examinations by the Mexican tax authorities. Significant changes to these government regulations and to assessments by the Mexican tax authorities can have a negative impact on our operations and operating results in Mexico.

Fluctuations in foreign currency exchange rates in Mexico may adversely affect our operating results. While our operations are predominantly in the U.S., we are exposed to foreign currency exchange rate risk with respect to our sales, expenses, profits, assets and liabilities denominated in the Mexican peso. As a result, our financial performance may be affected by changes in foreign currency exchange rates. Moreover, any favorable or unfavorable impacts to gross profit, gross margin, income from operations or segment operating profit from fluctuations in foreign currency exchange rates are likely to be inconsistent year over year.

Since some of our expenses are paid in Mexican pesos and we sell our production in United States dollars, we are subject to changes in currency values that may adversely affect our results of operations. Our operations in the future could be affected by changes in the value of the Mexican peso against the United States dollar. The appreciation of non-U.S. dollar currencies such as the peso against the U.S. dollar increases expenses and the cost of purchasing capital assets in U.S. dollar terms in Mexico, which can adversely impact our operating results and cash flows. Conversely, depreciation of non-U.S. dollar currencies usually decreases operating costs and capital asset purchases in U.S. dollar terms. The value of cash and cash equivalents, and other monetary assets and liabilities denominated in foreign currencies, also fluctuate with changes in currency exchange rates.

For fiscal year 2019, approximately 19% of our consolidated net revenues were derived from product sales to international customers. A number of risks are inherent in international transactions. International sales and operations may be limited or disrupted by any of the following:

- regulatory approval process,
- government controls,
- export license requirements,
- political instability,
- price controls,
- trade restrictions,
- fluctuations in foreign currencies,
- 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 on our part to obtain foreign regulatory approvals on a timely basis could have a material adverse effect on our international business, and our financial condition and results of operations. While our foreign sales are currently priced in dollars, fluctuations in currency exchange rates may reduce the demand for our products by increasing the price of our products in the currency of the countries in which the products are sold. Regulatory, geopolitical and other factors may adversely impact our operations in the future or require us to modify our current business practices.

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

We may experience difficulty acquiring materials or services for the manufacture of our products or we may not be able to obtain substitute vendors at all or on a timely basis. In addition, we may not be able to procure comparable materials at similar prices and terms within a reasonable time, if at all. Several services that are provided to Curation Foods are obtained from a single provider. Several of the raw materials we use to manufacture our products are currently purchased from a single source, including some monomers used to synthesize Intelimer polymers, substrate materials for our breathable membrane products and raw materials for our HA products. Any interruption of our relationship with single-source suppliers or service providers could delay product shipments and materially harm our business.

We Depend on Our Infrastructure to Have Sufficient Capacity to Handle Our On-Going Production Needs

We have an infrastructure that has sufficient capacity for our on-going production needs, but if our machinery or facilities are damaged or impaired due to natural disasters or mechanical failure, we may not be able to operate at a sufficient capacity to meet our production needs. This could have a material adverse effect on our business, which could impact our results of operations and our financial condition.

We Depend on Strategic Partners and Licenses for Future Development

Our strategy for development, clinical and field testing, manufacture, commercialization and marketing for some of our current and future products includes entering into various collaborations with corporate partners, licensees and others. We are dependent on our corporate partners to develop, test, manufacture and/or market some of our products. Although we believe that our partners in these collaborations have an economic motivation to succeed in performing their contractual responsibilities, the amount and timing of resources to be devoted to these activities are not within our control. Our partners may not perform their obligations as expected or we may not derive any additional revenue from the arrangements. Our partners may not pay any additional option or license fees to us or may not develop, market or pay any royalty fees related to products under such agreements. Moreover, some of the collaborative agreements provide that they may be terminated at the discretion of the corporate partner, and some of the collaborative agreements provide for termination under other circumstances. Our partners may pursue existing or alternative technologies in preference to our technology. Furthermore, we may not be able to negotiate additional collaborative arrangements in the future on acceptable terms, if at all, and our collaborative arrangements may not be successful.

Our Reputation and Business May Be Harmed if Our Computer Network Security or Any of the Databases Containing Our Trade Secrets, Proprietary Information or the Personal Information of Our Employees Are Compromised

Cyber-attacks or security breaches could compromise our confidential business information, cause a disruption in the Company's operations or harm our reputation. We maintain numerous information assets, including intellectual property, trade secrets, banking information and other sensitive information critical to the operation and success of our business on computer networks, and such information may be compromised in the event that the security of such networks is breached. We also maintain confidential information regarding our employees and job applicants, including personal identification information. The protection of employee and company data in the information technology systems we utilize (including those maintained by third-party providers) is critical. Despite the efforts by us to secure computer networks utilized for our business, security could be compromised, confidential information, such as Company information assets and personally identifiable employee information, could be misappropriated or system disruptions could occur.

In addition, we may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyberattacks. Attacks may be targeted at us, our customers or others who have entrusted us with information. Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants. Advances in computer capabilities, new technological discoveries or other developments may result in the technology used by us to protect sensitive Company data being breached or compromised. Furthermore, actual or anticipated cyberattacks or data breaches may cause significant disruptions to our network operations, which may impact our ability to deliver shipments or respond to customer needs in a timely or efficient manner.

Data and security breaches could also occur as a result of non-technical issues, including an intentional or inadvertent breach by our employees or by persons with whom we have commercial relationships that result in the unauthorized release of confidential information related to our business or personal information of our employees. Any compromise or breach of our computer network security could result in a violation of applicable privacy and other laws, costly investigations and litigation and potential regulatory or other actions by governmental agencies. As a result of any of the foregoing, we could experience adverse publicity, the compromise of valuable information assets, loss of sales, the cost of remedial measures and/or significant expenditures to reimburse third parties for resulting damages, any of which could adversely impact our brand, our business and our results of operations.

We May Be Unable to ***Adequately Protect Our Intellectual Property Rights or May Infringe Intellectual Property Rights of Others***

We may receive notices from third parties, including some of our competitors, claiming infringement by our products of their patent and other proprietary rights. Regardless of their merit, responding to any such claim could be time-consuming, result in costly litigation and require us to enter royalty and licensing agreements which may not be offered or available on terms acceptable to us. If a successful claim is made against us and we fail to develop or license a substitute technology, we could be required to alter our products or processes and our business, results of operations or financial position could be materially adversely affected. Our success depends in large part on our ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. Any pending patent applications we file may not be approved and we may not be able to develop additional proprietary products that are patentable. Any patents issued to us may not provide us with competitive advantages or may be challenged by third parties. Patents held by others may prevent the commercialization of products incorporating our technology. Furthermore, others may independently develop similar products, duplicate our products or design around our patents.

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

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

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

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

During the fiscal year ended May 26, 2019, sales to the Company's top five customers accounted for approximately 43% of total revenue with the top two customers from the Curation Foods segment, Costco Corporation and Wal-mart, Inc. accounting for approximately 14% and 16%, respectively, of total revenues. We expect that, for the foreseeable future, a limited number of customers may continue to account for a substantial portion of our revenues. We may experience changes in the composition of our customer base as we have experienced in the past. The reduction, delay or cancellation of orders from one or more major customers for any reason or the loss of one or more of our major customers could materially and adversely affect our business, operating results and financial condition. In addition, since some of the products processed by Curation Foods and Lifecore are sole sourced to customers, our operating results could be adversely affected if one or more of our major customers were to develop other sources of supply. Our current customers may not continue to place orders, orders by existing customers may be canceled or may not continue at the levels of previous periods or we may not be able to obtain orders from new customers.

Our Stock Price May Fluctuate in Response to Various Conditions, Many of Which Are Beyond Our Control

The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including the following:

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

Fluctuations in our quarterly results may, particularly if unforeseen, cause us to miss projections which might result in analysts or investors changing their valuation of our stock.

Lapses in Disclosure Controls and Procedures or Internal Control Over Financial Reporting Could Materially and Adversely Affect the Company's Operations, Profitability or Reputation

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

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

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

We Have Never Paid Any Dividends on Our Common Stock

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

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

None.

Item 2. ***Properties***

As of May 26, 2019, the Company owned or leased the following principle physical properties:

Location	Business Segment	Ownership	Facilities
Guadalupe, CA	Curation Foods	Owned	199,000 square feet of office space, manufacturing and cold storage
Chaska, MN	Lifecore	Owned	147,300 square feet of office, laboratory and manufacturing space
Silao, Guanajuato, Mexico	Curation Foods	Leased	97,000 square feet of office and manufacturing space
Chaska, MN	Lifecore	Leased	65,000 square feet of office, manufacturing and warehouse space
Hanover, PA	Curation Foods	Owned	64,000 square feet of office space, manufacturing and cold storage
Bowling Green, OH	Curation Foods	Owned	55,900 square feet of office space, manufacturing and cold storage
Ontario, CA	Curation Foods	Leased	54,300 square feet of office and manufacturing space
Santa Maria, CA	Curation Foods	Leased	36,300 square feet of office and laboratory space
Petaluma, CA	Curation Foods	Leased	18,400 square feet of office and manufacturing space
Rock Hill, SC	Curation Foods	Owned	16,400 square feet of cold storage and office space

In addition to the principal physical properties described above, the Company owns or leases a number of other facilities and land in various locations in the United States that are used for manufacturing, cold storage, and administration activities. Leases for these leased facilities expire at various dates through the year 2030. The Company does not anticipate experiencing significant difficulty in retaining occupancy of any of our manufacturing, laboratory, cold storage, or office facilities through lease renewals prior to expiration or through month-to-month occupancy, or in replacing them with equivalent facilities. We believe our existing facilities, both owned and leased, are in good condition and suitable for the conduct of our business.

Item 3. ***Legal Proceedings***

In the ordinary course of business, the Company is involved in various legal proceedings and claims. We believe that it is unlikely that any of these actions will have a material adverse impact on our operating results; however, because of the inherent uncertainties of litigation, the outcome of any of these actions could be unfavorable and could have a material adverse effect on our financial condition, results of operations or cash flows. For additional information about our material legal proceedings, please see Note 9, Commitments and Contingencies, of the accompanying notes to the consolidated financial statements.

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

Not applicable.

PART II

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

Market Information

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

Fiscal Year Ended May 26, 2019		High		Low
4th Quarter ended May 26, 2019	$	13.24	$	9.02
3rd Quarter ended February 24, 2019	$	15.57	$	10.17
2nd Quarter ended November 25, 2018	$	14.90	$	12.55
1st Quarter ended August 26, 2018	$	15.60	$	13.03

Fiscal Year Ended May 27, 2018		High		Low
4th Quarter ended May 27, 2018	$	14.55	$	12.55
3rd Quarter ended February 25, 2018	$	14.00	$	11.60
2nd Quarter ended November 26, 2017	$	13.65	$	11.42
1st Quarter ended August 27, 2017	$	14.95	$	12.10

Holders

As of July 26, 2019, there were approximately 49 holders of record of our common stock. Since certain holders are listed under their brokerage firm's names, the actual number of stockholders is higher.

Dividends

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

Issuer Purchases of Equity Securities

For the twelve months ended May 26, 2019, there have been no shares repurchased by the Company. The Company may still repurchase up to $3.8 million of the Company's Common Stock under the Company's stock repurchase plan announced on July 14, 2010.

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

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

	Year Ended				
(In thousands, except per share amounts)	May 26, 2019	May 27, 2018	May 28, 2017	May 29, 2016	May 31, 2015
Statements of Operations Data:	(1)	(1)	(1)	(1)	(1)
Product sales	$ 557,559	$ 524,227	$ 469,776	$ 476,918	$ 471,420
Net income (loss) from continuing operations	2,122	25,761	10,135	(11,990)	12,684
Net income (loss) from continuing operations, per share					
Basic	$ 0.07	$ 0.93	$ 0.37	$ (0.45)	$ 0.46
Diluted	$ 0.07	$ 0.92	$ 0.36	$ (0.45)	$ 0.46
Balance Sheet Data:					
Total assets	$ 519,091	$ 404,703	$ 358,608	$ 342,653	$ 346,465
Total debt, net	148,984	69,300	50,239	58,162	42,519

(1) During the fourth quarters of fiscal year 2019 and fiscal year 2018, the Company made the decision to discontinue its Now Planting and Food Export businesses, respectively. As a result, the Company met the requirements of Accounting Standards Codifications ("ASC") 205-20, *Presentation of Financial Statements – Discontinued Operations* ("ASC 205-20"), to report the results of and to classify the assets and liabilities of the Now Planting and Food Export businesses as discontinued operations. The operating results for the Now Planting business, which was launched during the second quarter of fiscal year 2019, have been presented as a discontinued operation in fiscal year 2019. The operating results for the Food Export business have been presented as a discontinued operation in fiscal year 2018, and have been reclassified as a discontinued operation in fiscal years 2017, 2016, and 2015.

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

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements contained in Item 8 of this report. Except for the historical information contained herein, the matters discussed in this report are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Potential risks and uncertainties include, without limitation, those mentioned in this report and, in particular, the factors described in Item 1A. "Risk Factors." Landec undertakes no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report.

Overview

Landec Corporation and its subsidiaries ("Landec" or the "Company") design, develop, manufacture and sell differentiated health and wellness products for food and biomaterials markets. There continues to be a dramatic shift in consumer behavior to healthier eating habits and preventive wellness to improve quality of life. In our Curation Foods, Inc. business, we are committed to offering healthy, fresh produce products conveniently packaged to consumers. In our Lifecore Biomedical, Inc. ("Lifecore") biomaterials business, we commercialize products that enable people to stay more active as they grow older.

Landec's Curation Foods and Lifecore businesses utilize polymer chemistry technology, a key differentiating factor. Both businesses focus on business-to-business selling such as selling directly to retail grocery store chains and club stores for Curation Foods and directly to partners in the medical device and pharmaceutical markets for Lifecore.

Landec has three reportable business segments – Curation Foods and Lifecore, each of which is described below, and an Other segment. The Other segment operating results for the year ended May 27, 2018 and May 28, 2017 have been restated to reflect the reclassification of *O* operating results from the Other segment to the Curation Foods segment.

Critical Accounting Policies and Use of Estimates

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”) requires management to make certain estimates and judgments that affect the amounts reported in the financial statements and accompanying notes to the Consolidated Financial Statements. The accounting estimates that require management’s most significant and subjective judgments include revenue recognition; loss contingencies, sales returns and allowances; self-insurance liabilities; recognition and measurement of current and deferred income tax assets and liabilities; the assessment of recoverability of long-lived assets including intangible assets and inventory; the valuation of investments; the valuation and recognition of stock-based compensation; and the valuation and recognition of contingent liabilities.

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

Revenue Recognition

See Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies for a discussion of the types of revenue earned at each segment.

Goodwill and Other Intangibles

The Company’s intangible assets are comprised of finite-lived customer relationships and indefinite-lived trademarks/trade names and goodwill. The Company tests its indefinite-lived intangible assets for impairment at least annually, in accordance with accounting guidance. See Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies for a discussion of how the Company accounts for goodwill and other intangibles.

Income Taxes

The Company accounts for income taxes in accordance with accounting guidance which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. See Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies for a discussion of how the Company accounts for income taxes.

Stock-Based Compensation

The Company’s stock-based awards include stock option grants and restricted stock unit awards (“RSUs”). The estimated fair value for stock options, which determines the Company’s calculation of compensation expense, is based on the Black-Scholes pricing model. See Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies for a discussion of how the Company accounts for stock-based compensation.

Derivative Financial Instruments

The Company entered into interest rate swap agreements to manage interest rate risk. This derivative instrument may offset a portion of the changes in interest expense, and the Company designates this derivative instrument as a cash flow hedge. See Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies for a discussion of how the Company accounts for its interest rate swaps.

Fair Value Measurements

The Company uses fair value measurement accounting for financial assets and liabilities and for financial instruments and certain other items measured at fair value. See Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies for a discussion of how the Company accounts for its investment in a non-public company and for its interest rate swaps.

Recent Accounting Pronouncements

Refer to "Recent Accounting Pronouncements" in Note 1 - Organization, Basis of Presentation, and Summary of Significant Accounting Policies of this Annual Report for a description of recent accounting pronouncements and our expectation of their impact, if any, on our results of operations and financial condition.

Results of Operations

Revenues:

Curation Foods revenues consist of revenues generated from (1) the sale of specialty packaged fresh-cut and whole processed vegetable products and salads that are washed and packaged in most cases in the Company's proprietary BreatheWay packaging and sold primarily under the Eat Smart brand and various private labels, (2) *O* olive oils and wine vinegars, and (3) Yucatan and Cabo Fresh branded guacamole and avocado products. In addition, the Curation Foods reportable business segment includes the revenues generated from the sale of BreatheWay packaging to license partners.

Lifecore generates revenues from the development and manufacture of pharmaceutical-grade sodium hyaluronate ("HA") products and providing contract development and aseptic manufacturing services to customers. Lifecore generates revenues from three integrated activities: (1) aseptically filled syringes and vials, (2) fermentation products, and (3) development activities.

(In thousands, except percentages)	Year Ended		Change		Year Ended		Change	
	May 26, 2019	May 27, 2018	Amount	%	May 27, 2018	May 28, 2017	Amount	%
Curation Foods	$ 481,686	$ 458,800	$ 22,886	5%	$ 458,800	$ 410,384	$ 48,416	12%
Lifecore	75,873	65,427	10,446	16%	65,427	59,392	6,035	10%
Total Revenues	$ 557,559	$ 524,227	$ 33,332	6%	$ 524,227	$ 469,776	$ 54,451	12%

Curation Foods

The increase in Curation Foods' revenues for fiscal year 2019 compared to fiscal year 2018 was primarily due to $27.3 million of revenues from the Yucatan Foods business. In addition, revenues increased $2.1 million from salad sales and $1.5 million from *O* olive oil and vinegar sales. These increases were partially offset by a $5.5 million decrease in (1) green bean sales due to shortages of green beans during December and January, as a result of weather-related events in the Southeast, and (2) tray sales due to lower unit volume sales.

The increase in Curation Foods' revenues for fiscal year 2018 compared to fiscal year 2017 was primarily due to a 9.0% increase in Eat Smart's unit volume sales with a majority of the increase in revenues coming from increased sales of our salad products which are higher priced products compared to the Company's lower priced core products whose sales increased 4.0% in fiscal year 2018 compared to fiscal year 2017. Additionally, the increase in Curation revenues for fiscal year 2018 compared to fiscal year 2017 was due to $3.8 million of revenues from the *O* business that was acquired on March 1, 2017.

Lifecore

The increase in Lifecore's revenues for fiscal year 2019 compared to fiscal year 2018 was due to a $5.7 million increase in development services revenues, primarily from existing customers, and a $4.4 million increase in aseptic filling revenues due to higher sales to existing customers.

The increase in Lifecore's revenues for fiscal year 2018 compared to fiscal year 2017 was due to a $6.3 million increase in aseptic sales resulting from higher sales to existing customers and a $3.2 million increase in development revenues primarily due to new arrangements with new customers, partially offset by a $3.5 million decrease in fermentation sales to existing customers.

Gross Profit:

There are numerous factors that can influence gross profit including product mix, customer mix, manufacturing costs, volume, sales discounts and charges for excess or obsolete inventory, to name a few. Many of these factors influence or are interrelated with other factors. The Company includes in cost of sales all of the following costs: raw materials (including produce, seeds, packaging, syringes and fermentation and purification supplies), direct labor, overhead (including indirect labor, depreciation, and facility-related costs) and shipping and shipping-related costs.

(In thousands, except percentages)	Year Ended		Change		Year Ended		Change	
	May 26, 2019	May 27, 2018	Amount	%	May 27, 2018	May 28, 2017	Amount	%
Curation Foods	$ 49,305	$ 49,770	$ (465)	(1%)	$ 49,770	$ 52,457	$ (2,687)	(5)%
Lifecore	31,698	28,568	3,130	11%	28,568	26,755	1,813	7%
Total Gross Profit	$ 81,003	$ 78,338	$ 2,665	3%	$ 78,338	$ 79,212	$ (874)	(1)%

Curation Foods

The decrease in gross profit for the Curation Foods business for fiscal year 2019 compared to fiscal year 2018 was primarily due to lower sales of green beans and higher input costs for raw materials, labor, packaging, and, freight. These increases were partially offset by $3.8 million of gross profit from the Yucatan Foods business and gross profit from higher salad sales. The net of these factors resulted in the gross margin decreasing to 10.2% in fiscal year 2019 compared to 10.8% in fiscal year 2018.

The decrease in gross profit for the Curation Foods business for fiscal year 2018 compared to fiscal year 2017 was primarily due to $7.8 million of incremental produce sourcing costs attributed to Eat Smart during fiscal year 2018 resulting from hurricanes and tropical storms and from unseasonably hot weather in California which negatively impacted produce yields and quality. These incremental produce sourcing costs were partially offset by gross profit resulting from increased salad sales. The net of these factors resulted in the gross margin decreasing to 10.8% in fiscal year 2018 compared to 12.5% in fiscal year 2017.

Lifecore

The increase in Lifecore’s gross profit for fiscal year 2019 compared to fiscal year 2018 was due to a 16% increase in revenues partially offset by an unfavorable product mix change in fiscal year 2019 to a higher percentage of revenues coming from lower margin aseptically filled product sales. As a result, Lifecore's gross margin decreased to 41.8% in fiscal year 2019 from 43.7% in fiscal year 2018.

The increase in Lifecore’s gross profit for fiscal year 2018 compared to fiscal year 2017 was due to a 10% increase in revenues partially offset by an unfavorable product mix change in fiscal year 2018 to a higher percentage of revenues coming from lower margin aseptically filled product sales than from higher margin fermentation sales compared to fiscal year 2017. As a result, Lifecore’s gross margin decreased to 43.7% in fiscal year 2018 from 45.0% in fiscal year 2017.

Operating Expenses:

Research and Development (R&D)

R&D consists primarily of product development and commercialization initiatives. R&D efforts in our Curation Foods business are primarily focused on innovating our current product lines and on the Company’s proprietary BreatheWay membranes used for packaging produce, with a focus on extending the shelf-life of sensitive vegetables and fruit. In the Lifecore business, the R&D efforts are focused on new products and applications for HA-based and non-HA biomaterials. For Other, the R&D efforts are primarily focused on creating and developing new innovative lines of products.

(In thousands, except percentages)	Year Ended		Change		Year Ended		Change	
	May 26, 2019	May 27, 2018	Amount	%	May 27, 2018	May 28, 2017	Amount	%
Curation Foods	$ 5,444	$ 5,633	$ (189)	(3)%	$ 5,633	$ 1,846	$ 3,787	205%
Lifecore	5,085	5,360	(275)	(5%)	5,360	5,387	(27)	(1)%
Other	937	1,807	(870)	(48%)	1,807	2,240	(433)	(19)%
Total R&D	$ 11,466	$ 12,800	$ (1,334)	(10)%	$ 12,800	$ 9,473	$ 3,327	35%

The decrease in R&D expenses for fiscal year 2019 compared to fiscal year 2018 was primarily due to a decrease in R&D expenses in our Other segment as a result of a decrease in product development activities for our new ventures and from a reduction in R&D expenses at Lifecore due to a higher percentage of R&D personnel working on production (charged to cost of sales) this fiscal year compared to last fiscal year.

The increase in R&D expenses for fiscal year 2018 compared to fiscal year 2017 was due to a significant increase in product development activities at Eat Smart driven primarily by the hiring of a VP of Innovation and R&D late in fiscal year 2017 and the subsequent staff hiring in that department, coupled with a significant increase in product development expenses at Eat Smart in fiscal year 2018.

Selling, General and Administrative (SG&A)

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

(In thousands, except percentages)	Year Ended		Change		Year Ended		Change	
	May 26, 2019	May 27, 2018	Amount	%	May 27, 2018	May 28, 2017	Amount	%
Curation Foods	$ 45,828	$ 34,090	$ 11,738	34%	$ 34,090	$ 35,161	$ (1,071)	(3)%
Lifecore	6,618	5,878	740	13%	5,878	5,422	456	8%
Other	11,616	11,983	(367)	(3)%	11,983	11,908	75	1%
Total SG&A	$ 64,062	$ 51,951	$ 12,111	23%	$ 51,951	$ 52,491	$ (540)	(1)%

The increase in SG&A expenses for fiscal year 2019 compared to fiscal year 2018 was due to (1) a $11.7 million increase at Curation Foods primarily due to (a) $4.3 million of SG&A at Yucatan Foods, (b) $3.3 million of merger and acquisition costs, (c) a $4.1 million increase in SG&A expenses at Eat Smart, which included a $2.0 million impairment of the GreenLine tradename, and (d) an increase in consulting fees, most of which was associated with Curation Foods' cost saving initiatives, and (2) a $0.7 million increase at Lifecore due to new hires and increased salary and benefit expenses. These increases were partially offset by a $0.4 million decrease at Corporate primarily due to a $3.5 million reduction of the earnout liability associated with the *O* acquisition, partially offset by severance-related charges, legal fees, and consulting fees.

The decrease in SG&A expenses for fiscal year 2018 compared to fiscal year 2017 was due to a decrease in SG&A at Eat Smart as a result of (1) a decrease in marketing expenses, (2) legal fees incurred during fiscal year 2017 from labor-related lawsuits settled during fiscal year 2017 and (3) severance costs incurred in fiscal year 2017. The decrease at Eat Smart was partially offset by an increase in SG&A expenses in Other resulting from (1) an increase in stock-based compensation from equity grants, (2) new business development activities and (3) a $1.1 million increase in SG&A expenses for *O* all of which was more than offset by a $1.9 million reduction in the contingent consideration liability associated with the *O* acquisition.

Other:

(In thousands, except percentages)	Year Ended		Change		Year Ended		Change	
	May 26, 2019	May 27, 2018	Amount	%	May 27, 2018	May 28, 2017	Amount	%
Dividend Income	$ 1,650	$ 1,650	$ —	—%	$ 1,650	$ 1,650	$ —	—%
Interest Income	145	211	(66)	(31)%	211	16	195	1,219%
Interest Expense	(5,230)	(1,950)	(3,280)	168%	(1,950)	(1,826)	(124)	7%
Loss on Debt Refinancing	—	—	—	—%	—	(1,233)	1,233	(100)%
Other Income	1,600	2,900	(1,300)	(45)%	2,900	900	2,000	222%
Income Tax (Expense) Benefit	(1,518)	9,363	(10,881)	N/M	9,363	(4,040)	13,403	N/M
Non-controlling Interest Expense	—	(94)	94	(100)%	(94)	(87)	(7)	8%

Dividend Income

Dividend income is derived from the dividends accrued on our $22.0 million preferred stock investment in Windset which yields a cash dividend of 7.5% annually. The Company sold its $7.0 million Preferred Senior B to Windset at the end of fiscal year 2019 and thus earned a full year of dividends on this investment during fiscal year 2019. There was no change in dividend income for the fiscal year ended May 26, 2019 compared to May 27, 2018 and the fiscal year ended May 27, 2018 compared to May 28, 2017.

Interest Income

The decrease in interest income in fiscal year 2019 compared to fiscal year 2018 was not significant.

The increase in interest income in fiscal 2018 compared to fiscal 2017 was due to the interest income from a note receivable to a third party that bears interest at a rate of 6.0% per annum.

Interest Expense

The increase in interest expense during fiscal year 2019 compared to fiscal year 2018 was primarily due to additional borrowings to fund the acquisition of Yucatan Foods at the beginning of the third quarter of fiscal 2019 as well as the Company's line of credit balance increasing from $27.0 million as of fiscal year ended May 27, 2018 to $52.0 million as of fiscal year ended May 26, 2019 primarily to fund new equipment purchases during the last twelve months.

The increase in interest expense during fiscal year 2018 compared to fiscal year 2017 was not significant.

Loss on Debt Refinancing

The loss on debt refinancing for the fiscal year 2017 was due to the write-off of unamortized debt issuance costs and early debt extinguishment prepayment penalties upon the Company refinancing its debt in September 2016.

Other Income

The decrease in other income for fiscal year 2019 was a result of the change in the fair value of the Company's investment in Windset, which increased $1.6 million for the twelve months ended May 26, 2019 compared to an increase of $2.9 million for the twelve months ended May 27, 2018.

The increase in other income for fiscal year 2018 was due to the increase in the fair value of our investment in Windset being higher in fiscal year 2018 than in fiscal year 2017.

Income Tax (Expense) Benefit

The increase in the income tax expense during fiscal year 2019 compared to fiscal year 2018 was due to the income tax benefit from the Tax Cuts and Jobs Act of 2017 (“TCJA”), which resulted in a significant tax benefit during fiscal year 2018 whereas the tax expense for fiscal year 2019 is based on pre-tax income.

As a result of the income tax benefit from the Tax Cuts and Jobs Act of 2017 (the “TCJA”), income taxes for fiscal year 2018 reflected a significant benefit as compared to fiscal year 2017 which reflected a tax expense based on pre-tax income.

Non-controlling Interest

The non-controlling interest consists of the limited partners’ equity interest in the net income of Apio Cooling, LP. The Company purchased the non-controlling interest in Apio Cooling, LP during the fourth quarter of fiscal year 2018 and dissolved Apio Cooling LP.

The increase in non-controlling interest for fiscal year 2018 compared to fiscal year 2017 was not significant.

Liquidity and Capital Resources

As of May 26, 2019, the Company had cash and cash equivalents of $1.1 million, a net decrease of $1.8 million from $2.9 million at May 27, 2018.

Cash Flows from Operating Activities

The Company generated $16.0 million of cash from operating activities during fiscal year 2019 compared to generating $19.8 million of cash from operating activities during fiscal year 2018. The primary sources of cash from operating activities during fiscal year 2019 were from (1) $0.4 million of net income, (2) $18.8 million of depreciation/amortization and stock based compensation expense, and (3) $2.0 million of impairment of the GreenLine tradename. These sources of cash were offset by (1) a $1.6 million increase in fair value of the Windset investment and a $3.5 million decrease in the *O* earn-out liability, both of which are non-cash items and (2) a $1.2 million increase in working capital.

The primary factors for the increase in working capital during fiscal year 2019, were (1) a $8.9 million increase in accounts receivable due to a $11.4 million increase in accounts receivable at Lifecore primarily due to May 2019 revenues being $8.8 million higher than May 2018 revenues, partially offset by a $2.5 million decrease in Curation Foods' accounts receivable due to the timing of receipts, (2) a $10.9 million increase in inventory due to a $11.4 million increase in inventory at Curation Foods, which includes increased inventory volume as a result of the Yucatan Foods acquisition, and (3) a $2.4 million decrease in deferred revenue due to the timing of billings and shipments at Lifecore. These increases in working capital were partially offset by (1) a $19.1 million increase in accounts payable due to a $18.5 million increase in Curation Foods' accounts payable, which includes higher purchasing volume as a result of the Yucatan Foods acquisition and (2) a $1.6 million decrease in prepaid expenses and other current assets primarily related to the timing of grower advances for raw products at Curation Foods.

Cash Flows from Investing Activities

Net cash used in investing activities for fiscal year 2019 was $96.8 million compared to $35.6 million for the same period last year. The use of cash in investing activities during fiscal year 2019 was primarily due to the $59.9 million in cash paid for the Yucatan Foods acquisition and from the purchase of $44.7 million of equipment to support the growth of the Curation Foods and Lifecore businesses. The net cash used in investing activities was partially offset by $7.0 million received from the Company's exercise of the put feature on its Senior B preferred shares in Windset.

Cash Flows from Financing Activities

Net cash provided by financing activities for fiscal year 2019 was $79.0 million compared to $13.3 million for the same period last year. The net cash provided by financing activities during fiscal year 2019 was primarily due to $60.0 million of borrowings under the Company's term loan to fund the Yucatan Foods acquisition and from a $25.0 million increase in the Company's line of credit, primarily to fund a portion of the $44.7 million of equipment purchases and to pay down long-term debt by $5.1 million.

Capital Expenditures

During fiscal year 2019, Landec incurred expenditures for facility expansions and purchased equipment to support the growth of the Curation Foods and Lifecore businesses. These expenditures represented the majority of the $44.7 million of capital expenditures.

Debt

On September 23, 2016, the Company entered into a Credit Agreement with JPMorgan, BMO, and City National Bank, as lenders (collectively, the "Lenders"), and JPMorgan as administrative agent, pursuant to which the Lenders provided the Company with a $100.0 million revolving line of credit (the "Revolver") and a $50.0 million term loan facility (the "Term Loan"), guaranteed by each of the Company's direct and indirect subsidiaries and secured by substantially all of the Company's assets, with the exception of the Company's investment in Windset.

On November 30, 2018, the Company entered into the Fourth Amendment to the Credit Agreement, which increased the Term Loan to $100.0 million and the Revolver to $105.0 million. Both the Revolver and the Term Loan continue to mature on September 23, 2021, with the Term Loan quarterly principal payments increasing to $2.5 million beginning on March 1, 2019, with the remainder due at maturity.

Contractual Obligations

The Company's material contractual obligations for the next five years and thereafter as of May 26, 2019, are as follows:

(in thousands)	Due in Fiscal Year Ended May						
Obligation	Total	2020	2021	2022	2023	2024	Thereafter
Debt obligations	$ 149,500	$ 10,000	$ 10,000	$ 129,500	$ —	$ —	$ —
Interest payments associated with debt obligations	17,280	7,565	7,053	2,662	—	—	—
Capital leases	4,925	486	489	460	3,490	—	—
Operating leases	28,421	5,056	4,044	3,589	3,350	3,047	9,335
Purchase commitments	30,615	25,135	2,780	2,700	—	—	—
Total	$ 230,741	$ 48,242	$ 24,366	$ 138,911	$ 6,840	$ 3,047	$ 9,335

Debt obligations are based on the principal amounts outstanding on the term loan and revolver at fiscal year end. The interest payment amounts above are based on principal amounts and contractual rates at fiscal year end. See Note 7 – Debt for further information on the Company's loans.

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

The Company's future capital requirements will depend on numerous factors, including the progress of its research and development programs; the continued development of marketing, sales and distribution capabilities; the ability of the Company to establish and maintain new licensing arrangements; the costs associated with employment-related claims; any decision to pursue additional acquisition opportunities; weather conditions that can affect the supply and price of produce, the timing and amount, if any, of payments received under licensing and research and development agreements; the costs involved in preparing, filing, prosecuting, defending and enforcing intellectual property rights; the ability to comply with regulatory requirements; the emergence of competitive technology and market forces; the effectiveness of product commercialization activities and arrangements; and other factors. If the Company's currently available funds, together with the internally generated cash flow from operations are not sufficient to satisfy its capital needs, the Company 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 the Company on favorable terms, if at all.

The Company believes that its cash from operations, along with existing cash and cash equivalents and availability under its line of credit will be sufficient to finance its operational and capital requirements for at least the next twelve months.

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

Interest Rate Exposure

Our net interest expense is sensitive to changes in the general level of interest rates. In this regard, changes in interest rates will affect our net interest expense, as well as the fair value of our debt.

On November 30, 2018, the Company entered into the Fourth Amendment to the Credit Agreement,which increased the Term Loan to $100.0 million and the Revolver to $105.0 million. Both the Revolver and the Term Loan accrue interest at a floating rate, equal to either (i) the prime rate plus a spread of between 0.25% and 2.25% or (ii) the Eurodollar rate plus a spread of between 1.25% and 3.25%. Based on the $149.0 million of floating rate debt outstanding as of May 26, 2019, of which $67.5 million is hedged, our annual interest expense would increase by approximately $0.8 million for each 100 basis point increase in interest rates.

Foreign Currency Exposure

Our Mexican-based operations transact a portion of business in Mexican pesos. Funds are transferred by our corporate office to Mexico to satisfy domestic cash needs. We do not currently use derivative instruments to hedge fluctuations in the Mexican peso to U.S. dollar exchange rates. Total impact from foreign currency translation is not significant.

Item 8. *Financial Statements and Supplementary Data*

See Item 15 of Part IV of this report.

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

Not applicable.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

As of May 26, 2019, our management evaluated, with participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission, and are effective in providing reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control - Integrated Framework (2013 Framework)*. Our management has concluded that we maintained effective internal control over financial reporting as of May 26, 2019.

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

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

Changes in Internal Controls over Financial Reporting

During the fourth quarter 2018, the Company identified errors in its current and previously filed statements of cash flows related to improperly including accrued capital expenditures in its cash outflows used in investing activities. The errors arose as a result of a deficiency in the operation of the Company's cash flow reconciliation control. Specifically, the Company had developed an accounting policy for the treatment of accrued capital expenditures that resulted in a deviation from GAAP and failed to execute its control to monitor the significance of such deviations.

During 2019, we completed the remediation plan for the material weakness in our internal control over financial reporting identified as of May 27, 2018. Specifically, our management, Audit Committee and Board of Directors took the following steps as part of our ongoing remediation efforts to address this issue:

(a) Strengthened our reconciliation controls around accounts payable and fixed assets by redesigning the controls to take into account the balances within fixed assets and the timing of payments for invoices within accounts payable; and

(b) Strengthened our review process over the Consolidated Statements of Cash Flows to ensure cash flows from investing activities accurately presents the timing of cash outflows arising from purchases of property and equipment.

On December 1, 2018, we completed the acquisition of Yucatan Foods. We are in the process of integrating Yucatan Foods into our systems and control environment. As permitted by the Securities and Exchange Commission, we are excluding Yucatan Foods from the assessment of internal control over financial reporting for the year ending May 26, 2019. This exclusion is consistent with guidance issued by the SEC that an assessment of a recently acquired business may be omitted from management's report on internal control over financial reporting in the year of acquisition.

Subject to the foregoing, no changes in our internal control over financial reporting have occurred as of May 26, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

None

PART III

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

This information required by this item will be contained in the Registrant’s definitive proxy statement which the Registrant will file with the Commission no later than September 23, 2019 (120 days after the Registrant’s fiscal year end covered by this Report) and is incorporated herein by reference.

Item 11. *Executive Compensation*

This information required by this item will be contained in the Registrant’s definitive proxy statement which the Registrant will file with the Commission no later than September 23, 2019 (120 days after the Registrant’s fiscal year end covered by this Report) and is incorporated herein by reference.

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

This information required by this item will be contained in the Registrant’s definitive proxy statement which the Registrant will file with the Commission no later than September 23, 2019 (120 days after the Registrant’s fiscal year end covered by this Report) and is incorporated herein by reference.

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

This information required by this item will be contained in the Registrant’s definitive proxy statement which the Registrant will file with the Commission no later than September 23, 2019 (120 days after the Registrant’s fiscal year end covered by this Report) and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

This information required by this item will be contained in the Registrant’s definitive proxy statement which the Registrant will file with the Commission no later than September 23, 2019 (120 days after the Registrant’s fiscal year end covered by this Report) and is incorporated herein by reference.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) 1. Consolidated Financial Statements of Landec Corporation

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Landec Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Landec Corporation and subsidiaries (the Company) as of May 26, 2019 and May 27, 2018, and the related consolidated statements of income (loss), comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended May 26, 2019, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at May 26, 2019 and May 27, 2018, and the results of its operations and its cash flows for each of the three years in the period ended May 26, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of May 26, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated August 1, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2008.

San Francisco, California
August 1, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Landec Corporation

Opinion on Internal Control over Financial Reporting

We have audited Landec Corporation and subsidiaries' internal control over financial reporting as of May 26, 2019, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Landec Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of May 26, 2019, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Yucatan Foods, Inc which is included in the May 26, 2019 consolidated financial statements of the Company and constituted $90,255 and $81,168 of total and net assets, respectively, as of May 26, 2019 and $27,321 and $(5,423) of product sales and net income from continuing operations before income taxes, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Yucatan Foods, Inc.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of May 26, 2019 and May 27, 2018, and the related consolidated statements of income (loss), comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended May 26, 2019, and the related notes and our report dated August 1, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Ernst & Young LLP

San Francisco, California
August 1, 2019

LANDEC CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	May 26, 2019	May 27, 2018
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,080	$ 2,899
Accounts receivable, less allowance for doubtful accounts	69,565	53,877
Inventories	54,132	31,819
Prepaid expenses and other current assets	8,264	7,958
Other current assets, discontinued operations	—	510
Total Current Assets	133,041	97,063
Investment in non-public company, fair value	61,100	66,500
Property and equipment, net	200,027	159,624
Goodwill	76,742	54,510
Trademarks/tradenames, net	29,928	16,028
Customer relationships, net	15,319	5,814
Other assets	2,934	5,164
Total Assets	$ 519,091	$ 404,703
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 53,973	$ 34,668
Accrued compensation	10,687	9,978
Other accrued liabilities	10,076	8,706
Deferred revenue	499	2,625
Line of credit	52,000	27,000
Current portion of long-term debt, net	9,791	4,940
Other current liabilities, discontinued operations	65	458
Total Current Liabilities	137,091	88,375
Long-term debt, net	87,193	37,360
Capital lease obligation, less current portion	3,532	3,641
Deferred taxes, net	19,393	17,485
Other non-current liabilities	1,738	5,280
Total Liabilities	248,947	152,141
Stockholders' Equity:		
Common stock, $0.001 par value; 50,000 shares authorized; 29,103 and 27,702 shares issued and outstanding at May 26, 2019 and May 27, 2018, respectively	29	28
Additional paid-in capital	160,341	142,087
Retained earnings	109,710	109,299
Accumulated other comprehensive income	64	1,148
Total Stockholders' Equity	270,144	252,562
Total Liabilities and Stockholders' Equity	$ 519,091	$ 404,703

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	May 26, 2019	May 27, 2018	May 28, 2017
Product sales	$ 557,559	$ 524,227	$ 469,776
Cost of product sales	476,556	445,889	390,564
Gross profit	81,003	78,338	79,212
Operating costs and expenses:			
Research and development	11,466	12,800	9,473
Selling, general and administrative	64,062	51,951	52,491
Legal settlement charge	—	—	2,580
Total operating costs and expenses	75,528	64,751	64,544
Operating income	5,475	13,587	14,668
Dividend income	1,650	1,650	1,650
Interest income	145	211	16
Interest expense, net	(5,230)	(1,950)	(1,826)
Loss on debt refinancing	—	—	(1,233)
Other income	1,600	2,900	900
Net income from continuing operations before taxes	3,640	16,398	14,175
Income tax (expense) benefit	(1,518)	9,363	(4,040)
Net income from continuing operations	2,122	25,761	10,135
Discontinued operations:			
(Loss) income from discontinued operations	(2,238)	(1,188)	837
Income tax benefit (expense)	527	350	(295)
(Loss) income from discontinued operations, net of tax	(1,711)	(838)	542
Consolidated net income	411	24,923	10,677
Non-controlling interest expense	—	(94)	(87)
Net income applicable to common stockholders	$ 411	$ 24,829	$ 10,590
Basic net income per share:			
Income from continuing operations	$ 0.07	$ 0.93	$ 0.37
(Loss) income from discontinued operations	(0.06)	(0.03)	0.02
Total basic net income per share	$ 0.01	$ 0.90	$ 0.39
Diluted net income per share:			
Income from continuing operations	$ 0.07	$ 0.92	$ 0.36
(Loss) income from discontinued operations	(0.06)	(0.03)	0.02
Total diluted net income per share	$ 0.01	$ 0.89	$ 0.38
Shares used in per share computation:			
Basic	28,359	27,535	27,276
Diluted	28,607	27,915	27,652

See accompanying notes to the consolidated financial statements.

LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In thousands)

	Year Ended		
	May 26, 2019	May 27, 2018	May 28, 2017
Net income applicable to common stockholders	$ 411	$ 24,829	$ 10,590
Other comprehensive (loss) income, net of tax:			
Change in net unrealized (losses) gains on interest rate swap (net of tax effect of $282, $(123), and $(254))	(1,084)	716	432
Other comprehensive (loss) income, net of tax	(1,084)	716	432
Total comprehensive (loss) income	$ (673)	$ 25,545	$ 11,022

See accompanying notes to the consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Non-controlling Interest
Balance at May 29, 2016	27,148	$ 27	$ 137,244	$ 73,457	$ —	$ 210,728	$ 1,622
Cumulative-effect adjustment - ASU 2016-09 adoption	—	—	200	423	—	623	—
Issuance of stock under stock plans	351	—	706	—	—	706	—
Taxes paid by Company for employee stock plans	—	—	(434)	—	—	(434)	—
Stock-based compensation	—	—	3,964	—	—	3,964	—
Payments to NCI	—	—	—	—	—	—	(166)
Net income	—	—	—	10,590	—	10,590	87
Other comprehensive income, net of tax	—	—	—	—	432	432	—
Balance at May 28, 2017	27,499	27	141,680	84,470	432	226,609	1,543
Issuance of stock under stock plans	203	1	55	—	—	56	—
Taxes paid by Company for employee stock plans	—	—	(1,478)	—	—	(1,478)	—
Stock-based compensation	—	—	4,403	—	—	4,403	—
Payments to NCI	—	—	—	—		—	(115)
Net income	—	—	—	24,829	—	24,829	94
Purchase of NCI	—	—	(2,573)	—		(2,573)	(1,522)
Other comprehensive income, net of tax	—	—	—	—	716	716	—
Balance at May 27, 2018	27,702	28	142,087	109,299	1,148	252,562	—
Issuance of stock under stock plans	197	—	327	—	—	327	—
Issuance of common stock in connection with Yucatan Foods acquisition	1,203	1	15,067	—	—	15,068	—
Taxes paid by Company for employee stock plans	—	—	(700)	—	—	(700)	—
Stock-based compensation	—	—	3,560	—	—	3,560	—
Net income	—	—	—	411	—	411	—
Other comprehensive loss, net of tax	—	—	—	—	(1,084)	(1,084)	—
Balance at May 26, 2019	29,102	$ 29	$ 160,341	$ 109,710	$ 64	$ 270,144	$ —

See accompanying notes to the consolidated financial statements.

LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended		
	May 26, 2019	May 27, 2018	May 28, 2017
Cash flows from operating activities:			
Consolidated net income	$ 411	$ 24,923	$ 10,677
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,230	12,412	10,677
Stock-based compensation expense	3,560	4,403	3,964
Loss on early debt extinguishment	—	—	1,233
Deferred taxes	910	(7,221)	2,506
Change in investment in non-public company, fair value	(1,600)	(2,900)	(900)
Net loss on disposal of property and equipment	188	157	586
Change in contingent consideration liability	(3,500)	(1,900)	—
Impairment of GreenLine tradename	2,000	—	—
Changes in current assets and current liabilities:			
Accounts receivable, net	(8,860)	(7,312)	(336)
Inventories	(10,929)	(6,529)	855
Prepaid expenses and other current assets	1,601	(3,987)	1,039
Accounts payable	19,116	4,965	(4,778)
Accrued compensation	249	1,981	2,751
Other accrued liabilities	21	(1,383)	2,086
Deferred revenue	(2,377)	2,170	(522)
Net cash provided by operating activities	16,020	19,779	29,838
Cash flows from investing activities:			
Purchases of property and equipment	(44,734)	(33,590)	(23,003)
Acquisitions (Note 2), net of cash acquired	(59,872)	—	(2,500)
Issuance of note receivable	—	(2,099)	—
Proceeds from collections of notes receivable	545	—	—
Proceeds from sale of investment in non-public company	7,000	—	—
Proceeds from sales of fixed assets	264	100	81
Net cash used in investing activities	(96,797)	(35,589)	(25,422)
Cash flows from financing activities:			
Proceeds from sale of common stock	327	56	706
Taxes paid by Company for employee stock plans	(700)	(1,478)	(434)
Net change in other assets/liabilities	—	—	(41)
Proceeds from long term debt	60,000	—	50,000
Payments on long-term debt	(5,092)	(5,076)	(57,236)
Proceeds from lines of credit	59,000	33,000	4,500
Payments on lines of credit	(34,000)	(9,000)	(5,000)
Payments for debt issuance costs	(509)	—	(897)
Payments for early debt extinguishment penalties	—	—	(233)
Purchase of non-controlling interest	—	(4,095)	—
Payments to non-controlling interest	—	(115)	(166)
Net cash provided by financing activities	79,026	13,292	(8,801)
Net decrease in cash, cash equivalents and restricted cash (1)	(1,751)	(2,518)	(4,385)
Cash, cash equivalents and restricted cash, beginning of period (1)	3,216	5,734	10,119
Cash, cash equivalents and restricted cash, end of period (1)	$ 1,465	$ 3,216	$ 5,734
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$ 5,614	$ 2,292	$ 2,332
Cash paid during the period for income taxes, net of refunds received	$ (1,963)	$ 283	$ 2,792
Supplemental disclosure of non-cash investing and financing activities:			
Purchases of property and equipment on trade vendor credit	$ 3,948	$ 8,445	$ 4,380

(1) As a result of adopting ASU 2016-18, cash and cash equivalents at the beginning-of-period and end-of-period total amounts have been adjusted.

See accompanying notes to the consolidated financial statements.

LANDEC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Organization

Landec Corporation and its subsidiaries ("Landec" or the "Company") design, develop, manufacture, and sell differentiated products for food and biomaterials markets, and license technology applications to partners.

The Company sells specialty packaged branded Eat Smart® and private label fresh-cut vegetables and whole produce to retailers, club stores, and food service operators, primarily in the United States and Canada. The Company also sells premier California specialty olive oils and wine vinegars under its O Olive Oil & Vinegar® ("*O*") brand to natural food, conventional grocery and mass retail stores primarily in the United States and Canada. The majority of Yucatan® and Cabo Fresh® branded guacamole and avocado products are sold in the U.S. grocery channel, but they are also sold in U.S. mass retail, Canadian grocery retail and foodservice channels.

On January 11, 2019, Landec's food company marked the completion of its transition from a packaged fresh vegetables company to a branded, natural foods company by changing the name of its food business from Apio, Inc. ("Apio") to Curation Foods, Inc. ("Curation Foods"). Curation Foods will serve as the corporate umbrella for a portfolio of four natural food brands, including the Company's flagship brand Eat Smart as well as three emerging natural food brands, consisting of *O* olive oil and vinegar products, and its two new brands Yucatan and Cabo Fresh authentic guacamole and avocado products, acquired by the Company through the acquisition of Yucatan Foods on December 1, 2018. *O*, Yucatan and Cabo Fresh are referred to collectively as "Emerging Brands". See Note 2 - Acquisitions for more details.

The Company has two proprietary polymer technology platforms: 1) Intelimer® polymers, and 2) hyaluronan ("HA") biopolymers. The Company sells HA-based and non-HA biomaterials through its Lifecore Biomedical, Inc. ("Lifecore") subsidiary. The Company's HA biopolymers and non-HA materials are proprietary in that they are specially formulated for specific customers to meet strict regulatory requirements.

The Company's technologies, along with its customer relationships and tradenames, are the foundation and key differentiating advantages upon which Landec has built its business.

Basis of Presentation and Consolidation

The consolidated financial statements are presented on the accrual basis of accounting in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") and include the accounts of Landec Corporation and its subsidiaries, Curation Foods and Lifecore. All material inter-company transactions and balances have been eliminated.

The Company's fiscal year is the 52- or 53-week period that ends on the last Sunday of May with quarters within each year ending on the last Sunday of August, November, and February; however, in instances where the last Sunday would result in a quarter being 12-weeks in length, the Company's policy is to extend that quarter to the following Sunday. A 14th week is included in the fiscal year every five or six years to realign the Company's fiscal quarters with calendar quarters.

In May 2019, the Company discontinued the Now Planting business, and in May 2018, the Company discontinued the Food Export business segment. As a result, the Now Planting business, which was launched during the second quarter of fiscal year 2019, and Food Export business were reclassified as a discontinued operation under the provisions of Accounting Standards Codification ("ASC") 205-20, *Presentation of Financial Statements - Discontinued Operations* ("ASC 205-20") and ASC 360, *Property, Plant and Equipment* ("ASC 360") for all periods presented. During fiscal year 2019, the Company re-packaged its GreenLine branded food service products to the Eat Smart brand, and wrote-off the remaining $2.0 million tradename intangible assets.

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

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

Reclassifications

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

Summary of Significant Accounting Policies

Use of Estimates

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

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

Concentrations of Risk

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

Several of the raw materials the Company uses to manufacture its products are currently purchased from a single source, including some monomers used to synthesize Intelimer polymers, substrate materials for its breathable membrane products and raw materials for its HA products.

The operations of Windset Holdings 2010 Ltd. ("Windset"), in which the Company holds a 26.9% minority investment, are predominantly located in British Columbia, Canada and Santa Maria, California. Routinely, the Company evaluates the financial strength and ability for Windset to continue as a going concern.

During the fiscal year ended May 26, 2019, sales to the Company's top five customers accounted for approximately 43% of total revenue with the top two customers from the Curation Foods segment, Costco Corporation ("Costco") and Wal-mart, Inc. ("Wal-mart") accounting for approximately 14% and 16%, respectively, of total revenues. Lifecore did not have any individual customers that exceeded 5% of total revenues. As of May 26, 2019, the top two customers, Costco and Wal-mart represented approximately 8% and 13%, respectively, of total accounts receivable. Lifecore's top three customers represented 13%, 8%, and 6%, respectively, of total accounts receivable.

During the fiscal year ended May 27, 2018, sales to the Company's top five customers accounted for approximately 49% of total revenue with the top two customers from the Curation Foods segment, Costco Corporation ("Costco") and Wal-mart, Inc. ("Wal-mart") accounting for approximately 19% and 18%, respectively, of total revenues. Lifecore did not have any individual customers that exceeded 5% of total revenues. As of May 27, 2018, the top two customers, Costco and Wal-mart represented approximately 13% and 18%, respectively, of total accounts receivable. Lifecore had one customer that represented 10% of total accounts receivable at the end of fiscal year 2018.

Impairment of Long-Lived Assets

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

Financial Instruments

The Company's financial instruments are primarily composed of commercial-term trade payables, grower advances, notes receivable, debt instruments and derivative instruments. For short-term instruments, the historical carrying amount approximates the fair value of the instrument. The fair value of long-term debt and lines of credit approximates their carrying value.

Cash Flow Hedges

The Company entered into an interest rate swap agreement to manage interest rate risk. This derivative instrument may offset a portion of the changes in interest expense. The Company designates this derivative instrument as a cash flow hedge. The Company accounts for its derivative instrument as either an asset or a liability and carries it at fair value in Other assets or Other non-current liabilities. The accounting for changes in the fair value of the derivative instrument depends on the intended use of the derivative instrument and the resulting designation.

For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of Accumulated Other Comprehensive Income ("AOCI") in Stockholders' Equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized in earnings in the current period. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions.

Comprehensive income consists of two components, net income and Other Comprehensive Income ("OCI"). OCI refers to revenue, expenses, and gains and losses that under GAAP are recorded as a component of stockholders' equity but are excluded from net income. The Company's OCI consists of net deferred gains and losses on its interest rate swap derivative instrument accounted for as a cash flow hedge. The components of AOCI, net of tax, are as follows (in thousands):

	Unrealized Gains on Cash Flow Hedge
Balance as of May 27, 2018	$ 1,148
Other comprehensive loss before reclassifications, net of tax effect	(1,084)
Amounts reclassified from OCI	—
Other comprehensive income, net	(1,084)
Balance as of May 26, 2019	$ 64

The Company does not expect any transactions or other events to occur that would result in the reclassification of any significant gains into earnings in the next 12 months.

Based on these assumptions, management believes the fair market values of the Company's financial instruments are not significantly different from their recorded amounts as of May 26, 2019 and May 27, 2018.

Accounts Receivable and Sales Returns and Allowance for Doubtful Accounts

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

	Balance at beginning of period	Adjustments resulting from acquisitions	Adjustments charged to revenue and expenses	Write offs, net of recoveries	Balance at end of period
Year Ended May 28, 2017	$ 296	$ —	$ 519	$ (454)	$ 361
Year Ended May 27, 2018	$ 361	$ —	$ 46	$ (105)	$ 302
Year Ended May 26, 2019	$ 302	$ 881	$ 421	$ (588)	$ 1,016

Contract Assets and Liabilities

Contract assets primarily relate to the Company's conditional right to consideration for work completed but not billed at the reporting date. The Company's contract assets as of May 26, 2019, and May 27, 2018, were $5.6 million and $4.2 million, respectively.

Contract liabilities primarily relate to payments received from customers in advance of performance under the contract. The Company's contract liabilities as of May 26, 2019, and May 27, 2018, were $0.2 million and $2.6 million, respectively. Revenue recognized during fiscal year 2019 that was included in the contract liability balance at the beginning of the fiscal 2019 period was $2.4 million.

Revenue Recognition

The Company follows the five step, principles-based model to recognize revenue upon the transfer of promised goods or services to customers and in an amount that reflects the consideration for which the Company expects to be entitled in exchange for those goods or services. Revenue, net of estimated allowances and returns, is recognized when the Company has completed its performance obligations under a contract and control of the product is transferred to the customer. Substantially all revenue is recognized at the time shipment is made or upon delivery as control of the product is transferred to the customer. Revenue for development service contracts are generally recognized based upon the labor hours expended relative to the total expected hours as a measure of progress to depict transfer of control of the service over time. The services are not distinct and are accounted for as a single performance obligation for each customer.

The Company's standard terms of sale are included in its contracts, purchase orders, and invoices. As such, all revenue is considered revenue recognized from contracts with customers. Shipping and other transportation costs charged to customers are recorded in both revenue and cost of goods sold. The Company has elected to account for shipping and handling as fulfillment activities, and not a separate performance obligation. The Company's standard payment terms with its customers range from 30 days to 90 days. Certain customers may receive cash-based incentives (including: volume rebates, discounts, and slotting fees), which are accounted for as variable consideration to the Company's performance obligations. The Company estimates these sales incentives based on the expected amount to be provided to its customers and reduces revenues recognized towards its performance obligations. The Company does not anticipate significant changes in its estimates for variable consideration.

Occasionally, the Company enters into bill-and-hold arrangements, where it invoices the customer for products even though it retains possession of the products until a point-in-time in the future when the products will be shipped to the customer. In these contracts, the primary performance obligation is satisfied, and revenue is generally recognized, at a point-in-time when the product is segregated from the Company's general inventory, it's ready for shipment to the customer, and the Company does not have the ability to use the product or re-deploy it to another customer.

The Company disaggregates its revenue by segment product lines based on how it markets its products and reviews results of operations. The following tables disaggregate segment revenue by major product lines (in thousands):

	Year Ended		
Curation Foods:	May 26, 2019	May 27, 2018	May 28, 2017
Salads	$ 190,239	$ 188,104	$ 152,467
Core vegetables	258,812	266,850	255,554
Emerging brands	32,635	3,846	2,363
Total	$ 481,686	$ 458,800	$ 410,384

	Year Ended		
Lifecore:	May 26, 2019	May 27, 2018	May 28, 2017
Aseptic	$ 34,384	$ 30,021	$ 24,090
Fermentation	21,434	21,068	24,187
Development services	20,055	14,338	11,115
Total	$ 75,873	$ 65,427	$ 59,392

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

Shipping and Handling Costs

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

Cash and Cash Equivalents

The Company records all highly liquid securities with three months or less from date of purchase to maturity as cash equivalents. Cash equivalents consist mainly of money market funds. The market value of cash equivalents approximates their historical cost given their short-term nature.

Reconciliation of Cash and Cash Equivalents and Cash as presented on the Statements of Cash Flows

The following table provides a reconciliation of cash, cash equivalents, and cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows (in thousands):

	May 26, 2019	May 27, 2018	May 28, 2017
Cash and cash equivalents	$ 1,080	$ 2,899	$ 5,998
Restricted cash	385	325	325
Cash, discontinued operations	—	(8)	(589)
Cash and cash equivalents presented on Statements of Cash Flows	$ 1,465	$ 3,216	$ 5,734

Restricted Cash

The Company was required to maintain $0.4 million as of May 26, 2019 and $0.3 million of restricted cash as of both May 27, 2018, and May 28, 2017 related to certain collateral requirements for obligations under its workers' compensation programs. The restricted cash is included in Other assets in the Company's accompanying Consolidated Balance Sheets.

Inventories

Inventories are stated at the lower of cost (using the first-in, first-out method) or net realizable value. As of May 26, 2019 and May 27, 2018 inventories consisted of (in thousands):

	Year Ended	
	May 26, 2019	May 27, 2018
Finished goods	$ 26,748	$ 12,861
Raw materials	23,195	15,286
Work in progress	4,189	3,672
Total inventories	$ 54,132	$ 31,819

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

Advertising Expense

Advertising expenditures for the Company are expensed as incurred and included in SG&A in the accompanying Consolidated Statements of Income. Advertising expense for the Company for fiscal years 2019, 2018, and 2017 was $1.3 million, $1.4 million and $1.9 million, respectively.

Notes and Advances Receivable

Curation Foods issues notes and makes advances to produce growers for their crop and harvesting costs primarily for the purpose of sourcing crops for Curation Foods' business. Notes and advances receivable are generally recovered during the growing season (less than one year) using proceeds from the crops sold to Curation Foods. Notes are interest bearing obligations, evidenced by contracts and notes receivable. These notes and advances receivable are secured by perfected liens on crops, have terms that range from three to nine months, and are reviewed at least quarterly for collectability. A reserve is established for any note or advance deemed to not be fully collectible based upon an estimate of the crop value or the fair value of the security for the note or advance. Notes or advances outstanding at May 26, 2019 and May 27, 2018 were $2.0 million and $2.7 million, respectively and are recorded in prepaid expenses and other current assets in the accompanying Consolidated Balance Sheets.

Related Party Transactions

The Company sold products to and earned license fees from Windset during the last three fiscal years. During fiscal years 2019, 2018, and 2017, the Company recognized revenues of $0.6 million, $0.6 million, and $0.5 million, respectively. These amounts have been included in product sales in the accompanying Consolidated Statements of Income, from the sale of products to and license fees from Windset. The related receivable balances of $0.5 million and $0.3 million from Windset are included in accounts receivable in the accompanying Consolidated Balance Sheets as of May 26, 2019 and May 27, 2018, respectively.

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

Property and Equipment

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

The Company capitalizes software development costs for internal use. 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 on a straight-line basis over estimated useful lives of three to seven years.

Long-Lived Assets

The Company's Long-Lived Assets consist of property, plant and equipment, and intangible assets. Intangible assets are comprised of customer relationships with an estimated useful life of eleven to thirteen years and trademarks/trade names and goodwill with indefinite lives. Accounting guidance defines goodwill as "the excess of the cost of an acquired entity over the net of the estimated fair values of the assets acquired and the liabilities assumed at date of acquisition."

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

The Company tests its indefinite-lived intangible assets for impairment at least annually, in accordance with accounting guidance. For all indefinite-lived assets, including goodwill, the Company performs a qualitative analysis in accordance with ASC 350-30-35. Application of the impairment tests for indefinite-lived intangible assets requires significant judgment by management, including identification of reporting units, assignment of assets and liabilities to reporting units, assignment of intangible assets to reporting units, which judgments are inherently uncertain.

During fiscal year 2019, the Company re-packaged its GreenLine branded food service products to the Eat Smart brand, and wrote-off the remaining $2.0 million tradename intangible assets. During fiscal year 2018, there were no impairments of intangible assets.

On a quarterly basis, the Company considers the need to update its most recent annual tests for possible impairment of its indefinite-lived intangible assets, based on management's assessment of changes in its business and other economic factors since the most recent annual evaluation. Such changes, if significant or material, could indicate a need to update the most recent annual tests for impairment of the indefinite-lived intangible assets during the current period. The results of these tests could lead to write-downs of the carrying values of these assets in the current period.

In the annual impairment test, the Company assesses qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. In assessing the qualitative factors, management considers the impact of these key factors: macro-economic conditions, industry and market environment, cost factors, overall financial performance of the Company, cash flow from operating activities, market capitalization, litigation, and stock price. If management determines as a result of the qualitative assessment that it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, then the quantitative test is required. Otherwise, no further testing is required.

If a quantitative test is required, the Company would compare the carrying amount of a reporting unit that includes goodwill to its fair value. The Company determines the fair value using both an income approach and a market approach. Under the income approach, fair value is determined based on estimated future cash flows, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of the Company and the rate of return an outside investor would expect to earn. Under the market-based approach, information regarding the Company is utilized as well as publicly available industry information to determine earnings multiples that are used to value the Company. A goodwill impairment loss is recognized for the amount that the carrying amount of a reporting unit, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit.

As of February 24, 2019, the Company tested its goodwill for impairment and determined that no indication of impairment existed as of that date. A quantitative goodwill impairment test was performed on the basis that periodically the reporting units should be valued in order to support qualitative assessments in subsequent years.

Subsequent to the 2019 annual impairment test, there have been no significant events or circumstances affecting the valuation of goodwill that indicate a need for goodwill to be further tested for impairment. Other than the goodwill attributable to the Food Export business segment, which was written off pursuant to the Company discontinuing its operations during fiscal 2018, there were no impairment losses for goodwill during fiscal years 2019, 2018, and 2017.

Investment in Non-Public Company

On February 15, 2011, the Company made an investment in Windset which is reported as an investment in non-public company, fair value, in the accompanying Consolidated Balance Sheets as of May 26, 2019 and May 27, 2018. The Company has elected to account for its investment in Windset under the fair value option. See Note 3 – Investment in Non-public Company for further information.

Partial Self-Insurance on Employee Health and Workers Compensation Plans

The Company provides health insurance benefits to eligible employees under self-insured plans whereby the Company pays actual medical claims subject to certain stop loss limits and self-insures its workers compensation claims. The Company records self-insurance liabilities based on actual claims filed and an estimate of those claims incurred but not reported. Any projection of losses concerning the Company's liability is subject to a high degree of variability. Among the causes of this variability are unpredictable external factors such as inflation rates, changes in severity, benefit level changes, medical costs, and claims settlement patterns. This self-insurance liability is included in accrued liabilities in the accompanying Consolidated Balance Sheets and represents management's best estimate of the amounts that have not been paid as of May 26, 2019 and May 27, 2018. It is reasonably possible that the expense the Company ultimately incurs could differ and adjustments to future reserves may be necessary.

Deferred Revenue

Cash received in advance of services performed are recorded as deferred revenue.

Non-Controlling Interest

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

During the fiscal fourth quarter of 2018, the Company purchased the remaining 40% non-controlling interest of its subsidiary, Apio Cooling, LP ("Apio Cooling"), for approximately $4.7 million in cash. The increase in the Company's ownership interest in Apio Cooling was accounted for as an equity transaction in accordance with ASC Topic 810-10-45-23. The Company recorded a decrease in additional paid-in capital of approximately $2.6 million, which represents the difference between the cash paid and the book value of the Apio Cooling non-controlling interest account, which was approximately $1.5 million, immediately preceding the purchase.

Income Taxes

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

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

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

Per Share Information

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

The following table sets forth the computation of diluted net income per share:

	Year Ended		
(in thousands, except per share amounts)	May 26, 2019	May 27, 2018	May 28, 2017
Numerator:			
Net income applicable to Common Stockholders	$ 411	$ 24,829	$ 10,590
Denominator:			
Weighted average shares for basic net income per share	28,359	27,535	27,276
Effect of dilutive securities:			
Stock options and restricted stock units	248	380	376
Weighted average shares for diluted net income per share	28,607	27,915	27,652
Diluted net income per share	$ 0.01	$ 0.89	$ 0.38

Options to purchase 1,576,919, 1,495,380, and 1,428,272 shares of Common Stock at a weighted average exercise price of $13.74, $13.80, and $13.58 per share were outstanding during fiscal years ended May 26, 2019, May 27, 2018, and May 28, 2017, respectively, but were not included in the computation of diluted net income per share because the options' exercise price was greater than the average market price of the Common Stock and, therefore, their inclusion would be antidilutive.

Research and Development Expenses

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

Accounting for Stock-Based Compensation

The Company's stock-based awards include stock option grants and restricted stock unit awards ("RSUs"). The Company records compensation expense for stock-based awards issued to employees and directors in exchange for services provided based on the estimated fair value of the awards on their grant dates and is recognized over the required service periods, generally the vesting period.

The estimated fair value for stock options, which determines the Company's calculation of stock-based compensation expense, is based on the Black-Scholes option pricing model. The use of Black-Scholes requires the Company to make estimates and assumptions, such as expected volatility, expected term, and risk-free interest rate. RSUs are valued at the closing market price of the Company's common stock on the date of grant. The Company uses the straight-line single option method to calculate and recognize the fair value of stock-based compensation arrangements.

Employee Savings and Investment Plans

The Company sponsors a 401(k) plan which is available to all full-time Landec employees ("Landec Plan") and allows participants to contribute from 1% to 50% of their salaries, up to the Internal Revenue Service limitation into designated investment funds. The Company matches 100% on the first 3% and 50% on the next 2% contributed by an employee. Employee and Company contributions are fully vested at the time of the contributions. The Company retains the right, by action of the Board of Directors, to amend, modify, or terminate the plan. For fiscal years 2019, 2018 and 2017, the Company contributed $1.8 million, $1.8 million and $1.5 million**,** respectively, to the Landec Plan.

Fair Value Measurements

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

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

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

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

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

As of May 26, 2019, the Company held certain assets and liabilities that were required to be measured at fair value on a recurring basis, including its interest rate swap, its minority interest investment in Windset, and its contingent consideration liability from the acquisition of *O*.

The fair value of the Company's interest rate swap contracts is determined based on model inputs that can be observed in a liquid market, including yield curves, and is categorized as a Level 2 fair value measurement and is included in Other assets or Other non-current liabilities in the accompanying Consolidated Balance Sheets.

The fair value of the Company's contingent consideration liability from the acquisition of *O* utilizes significant unobservable inputs, including projected earnings before interest, taxes, depreciation and amortization ("EBITDA"), and discount rates. As a result, the Company's contingent consideration liability associated with the *O* acquisition is considered a Level 3 measurement liability and is included in Other non-current liabilities in the accompanying Consolidated Balance Sheets.

In determining the fair value of the Company's contingent consideration liability, the Company utilizes the following significant unobservable inputs in the discounted cash flow models:

	May 26, 2019	May 27, 2018
Cost of debt	5.1% to 5.5%	4.7% to 5.2%
Market price of risk adjustment	14%	20%
EBITDA volatility	28%	25%

The fair value of our contingent consideration liability is sensitive to change in forecasts. The discounted cash flow valuation model used by the Company has the following sensitivity to changes in inputs and assumptions (in thousands):

	Impact on value of Contingent consideration liability as of May 26, 2019
10% increase in EBITDA forecast	$ 100

The Company has elected the fair value option of accounting for its investment in Windset. The calculation of fair value utilizes significant unobservable inputs, including projected cash flows, growth rates, and discount rates. As a result, the Company's investment in Windset is considered to be a Level 3 measurement investment. The change in the fair value of the Company's investment in Windset for the twelve months ended May 26, 2019 was due to the Company's 26.9% minority interest in the change in the fair market value of Windset during the period.

In determining the fair value of the investment in Windset, the Company utilizes the following significant unobservable inputs in the discounted cash flow models:

	May 26, 2019	May 27, 2018
Revenue growth rates	6%	6%
Expense growth rates	6%	6%
Income tax rates	15%	15%
Discount rates	12%	12%

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

	Impact on value of Windset investment as of May 26, 2019
10% increase in revenue growth rates	$ 10,600
10% increase in expense growth rates	$ (9,900)
10% increase in income tax rates	$ (400)
10% increase in discount rates	$ (3,500)

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

The following table summarizes the fair value of the Company's assets and liabilities that are measured at fair value on a recurring basis (in thousands):

	Fair Value at May 26, 2019			Fair Value at May 27, 2018		
Assets:	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Interest rate swap contracts	$ —	$ 644	$ —	$ —	$ 1,529	$ —
Investment in non-public company	—	—	61,100	—	—	66,500
Total assets	$ —	$ 644	$ 61,100	$ —	$ 1,529	$ 66,500
Liabilities:						
Interest rate swap contracts	$ —	$ 482	$ —	$ —	$ —	$ —
Contingent consideration liability	—	—	500	—	—	4,000
Total liabilities	$ —	$ 482	$ 500	$ —	$ —	$ 4,000

The following table reflects the fair value roll forward reconciliation of Level 3 assets and liabilities measured at fair value for the twelve months ended May 26, 2019 (in thousands):

	Windset Investment	Contingent Consideration Liability
Balance as of May 27, 2018	$ 66,500	$ 4,000
Fair value change	1,600	(3,500)
Exercise of Senior B put feature (1)	(7,000)	—
Balance as of May 26, 2019	$ 61,100	$ 500

(1) Refer to Note 3 - Investment in Non-public Company for further details.

Recent Accounting Pronouncements

Income Taxes

In February 2018, the FASB issued ASU 2018-2, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* that permits a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act enacted in December 2017. The standard is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company adopted ASU 2018-2 on August 27, 2018. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements and related disclosures.

Stock Compensation

In May 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-9, Compensation—Stock Compensation (Topic 718): *Scope of Modification Accounting*, which provides guidance about which changes to the terms or conditions of a stock-based payment award require an entity to apply modification accounting in Topic 718. This pronouncement is effective for annual reporting periods beginning after December 15, 2017. The Company adopted ASU 2017-9 on May 28, 2018. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements and related disclosures.

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): *Restricted Cash* ("ASU 2016-18"). ASU 2016-18 requires that entities include restricted cash and restricted cash equivalents with cash and cash equivalents in the beginning-of-period and end-of-period total amounts shown on the Statement of Cash Flows. The amendments in ASU 2016-18 are effective for fiscal years beginning after December 15, 2017, including interim reporting periods within those fiscal years. The Company adopted ASU 2016-18 on May 28, 2018. As a result of this retrospective adoption, the beginning-of-period and end-of-period total cash and cash equivalents in the Statement of Cash Flows have been adjusted to include restricted cash for all periods presented.

Intra-Entity Transfers

In November 2016, the FASB issued ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*. ASU 2016-16 requires companies to account for the income tax effects of intercompany transfers of assets other than inventory (e.g., intangible assets) when the transfer occurs. This pronouncement is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Effective May 28, 2018, the Company adopted the ASU, without any impact to the presentation of its financial statements and disclosures.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): *Classification of Certain Cash Receipts and Cash Payments* (a consensus of the Emerging Issues Task Force). ASU 2016-15 clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows to reduce diversity in practice. Among other things, debt prepayment or debt extinguishment costs will be presented as cash outflows for financing activities on the statement of cash flow. Effective May 28, 2018, the Company adopted the ASU, without any impact to the presentation of its financial statements and disclosures.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-9, which creates FASB ASC Topic 606, *Revenue from Contracts with Customers* ("Topic 606") and supersedes ASC Topic 605, Revenue Recognition. The guidance replaces industry-specific guidance and establishes a single five-step model to identify and recognize revenue. The core principle of the guidance is that an entity should recognize revenue upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires the entity to disclose further quantitative and qualitative information regarding the nature and amount of revenues arising from contracts with customers, as well as other information about the significant judgments and estimates used in recognizing revenues from contracts with customers.

The Company adopted Topic 606 on May 28, 2018 using the modified retrospective method. The adoption of this Topic 606 did not have a material impact upon the timing and measurement of revenue recognition. Additionally, the Company concluded that its historical methodology for estimation and recognition of variable consideration, i.e., rebates and other cash-based customer incentives remains consistent with the requirements of Topic 606. Revenues from the Company's Curation Foods segment are mostly generated from the sales of finished goods. Revenues from the Company's Biomaterials segment are mostly generated from its supply and contract manufacturing arrangements. Such sales predominantly contain a single performance obligation and revenue is recognized at a point-in-time, when control of the product transfers from the Company to the customer.

In the notes to the consolidated financial statements, the Company has expanded its revenue recognition disclosures. Additionally, it has implemented changes to accounting policies and procedures, business processes, and controls in order to comply with the revenue recognition and disclosure requirements of Topic 606.

Disclosure simplification

In August 2018, the U.S. Securities and Exchange Commission ("SEC") adopted the final rule under SEC Release No. 33-10532, *Disclosure Update and Simplification*, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements relating to the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of income is required to be filed. This final rule is effective on November 5, 2018. Effective November 26, 2018, the Company adopted SEC Release No. 33-10532. In accordance with the new guidance, the Company has revised in its Form 10-Q the changes required in the Consolidated Statement of Changes in Stockholders' Equity.

Recently Issued Pronouncements to be Adopted

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use-assets. ASU 2016-02 also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The Company will adopt ASU 2016-02 beginning in the first quarter of fiscal year 2020 on a modified retrospective basis.

Upon adoption of ASU 2016-02, the Company will record a transitional adjustment of approximately $0.3 million to opening retained earnings to write off the difference in deferred rent balances from prior periods for two operating leases with non-level rent. The difference arises from recalculation of deferred rent after applying updated lease terms as a result of applying hindsight.

Upon adoption of the ASU, there will be a significant impact in our consolidated balance sheet as we expect to recognize a right-of-use asset of approximately $30.0 million and lease liability of approximately $31.1 million related to our operating lease arrangements. The Company’s current operating lease portfolio is primarily comprised of real estate, equipment, and vehicles.

The pattern of recognition for operating leases within the consolidated statements of comprehensive income is not anticipated to significantly change. This change will have no impact on the Company’s ability to meet its loan covenants as the impact from the adoption of ASU 2016-02 was taken into consideration when determining its loan covenants.

Cloud Computing Arrangements

In August 2018, the FASB issued ASU 2018-15, *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract* ("ASU 2018-15"), which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification 350-40 to determine which implementation costs to defer and recognize as an asset. The Accounting Standards Update generally aligns the guidance on recognizing implementation costs incurred in a cloud computing arrangement that is a service contract with that for implementation costs incurred to develop or obtain internal-use software, including hosting arrangements that include an internal-use software license. ASU 2018-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application is permitted. The Company is currently assessing the future impact of this update on its consolidated financial statements and related disclosures.

Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). The guidance eliminates, adds and modifies certain disclosure requirements for fair value measurements. Entities will no longer have to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently assessing the future impact of this update on its consolidated financial statements and related disclosures.

Share-Based Compensation

In June 2018, the FASB issued ASU 2018-7, *Improvements to Nonemployee Share-Based Payment Accounting* ("ASU 2018-7"), which simplifies the accounting for share-based payments granted to nonemployees for goods and services. The guidance aligns the accounting for non-employee equity based awards with the accounting for employee equity-based awards, and requires equity-classified share-based payment awards issued to non-employees to be measured based on the grant date price, rather than remeasure the awards through the performance completion date. ASU 2018-7 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of ASU 2018-7 is not expected to have a material impact on the consolidated financial statements and related disclosures.

Hedging

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities* (ASU 2017-12), which amends the presentation and disclosure requirements and changes how companies assess effectiveness. The amendments are intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. ASU 2017-12 is effective for annual periods beginning after December 15, 2018, including interim periods within those periods. Early application is permitted. The Company is currently assessing the future impact of this update on its consolidated financial statements and related disclosures.

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which requires the measurement of all expected credit losses for financial assets including trade receivables held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The adoption of ASU 2016-13 is not expected to have a material impact on the consolidated financial statements and related disclosures.

2. Acquisitions

Yucatan Foods Acquisition

On December 1, 2018 (the "Acquisition Date"), the Company acquired all of the voting interests and substantially all of the assets of Yucatan Foods, a manufacturer and seller of avocado-based food products. The total consideration paid to acquire Yucatan Foods was $75.0 million, consisting of $59.9 million in cash and 1,203,360 shares of common stock ("Stock Consideration") with a fair value of $15.1 million. The fair value of the Stock Consideration is based on a per-share value of the Company's common stock on the Acquisition Date. Given that the holders are restricted from selling the Landec common stock, a discount for lack of marketability was applied to the Stock Consideration. The discount for lack of marketability was based on restricted stock studies, pre-IPO studies, and utilizing the Black-Scholes option pricing model to estimate a discount of 17.5% and 20.0% for the 3-year and 4-year lockup period, respectively.

Pursuant to the terms of the purchase agreement, all 1,203,360 shares issued as Stock Consideration will be held in an escrow account to secure the indemnification rights of Landec with respect to certain matters, including breaches of representations, warranties and covenants such as environmental and tax representations. The Stock Consideration is comprised of two tranches, with 3-year and 4-year lock-up provisions, respectively, such that 50% of the Stock Consideration will be released from lock-up on November 30, 2021, the 3-year anniversary of the Acquisition Date, and 50% of the Stock Consideration is released on November 30, 2022, the 4-year anniversary of the Acquisition Date.

Yucatan Foods, founded in 1991, with its headquarters in Los Angeles, CA, produces and sells guacamole and other avocado products under its Yucatan and Cabo Fresh brands primarily in the U.S. and Canada. Yucatan Foods' production facility is located in Guanajuato, Mexico, very near where avocados are grown. Landec acquired Yucatan Foods to grow, strengthen, and stabilize its position in the natural foods market and to improve Curation Foods' margins over time.

Upon acquisition, Yucatan Foods became a wholly-owned subsidiary of Curation Foods. The Acquisition Date fair value of the consideration paid consisted of the following (in thousands):

Cash consideration	$	59,898
Stock consideration		15,068
	$	74,966

The excess of the purchase price over the aggregate fair value of identifiable net assets acquired was recorded as goodwill. These preliminary fair values of the assets acquired and the liabilities assumed were determined through established and generally accepted valuation techniques and are subject to change during the measurement period as valuations are finalized. The primary areas of the purchase price that are not yet finalized are related to income taxes and consideration of indemnification provisions for environmental related items. The fair value of assets acquired and liabilities assumed in accounting for the Acquisition is set forth in the table below (in thousands):

Cash and cash equivalents	$ 26
Accounts receivable	6,310
Inventories	11,384
Prepaid expenses and other current assets	1,589
Other assets	102
Property and equipment	14,083
Trademarks/tradenames	15,900
Customer relationships	11,000
Accounts payable	(4,507)
Other accrued liabilities	(1,873)
Deferred tax liabilities	(1,280)
Net identifiable assets acquired	52,734
Goodwill	22,232
Total fair value purchase consideration	$ 74,966

During the fourth quarter of fiscal 2019, the Company recorded measurement period adjustments to deferred income taxes of $1.7 million and indemnification provisions for environmental related items of $0.7 million, resulting in an increase to goodwill of $1.0 million.

Intangible Assets

The Company identified two intangible assets in connection with the Yucatan Foods acquisition: trademark/tradenames valued at $15.9 million and customer relationships valued at $11.0 million, which are included within Trademarks/tradenames and Customer relationships in the accompanying Consolidated Balance Sheets, respectively. Tradenames are considered to be an indefinite lived asset and therefore, will not be amortized. Customer relationships have an estimated useful life of 12 years and will be amortized to operating expenses on an accelerated basis that reflects the pattern in which the economic benefits are consumed. The tradenames are valued using the relief from royalty valuation method and the customer relationships are valued using the excess earnings method.

Goodwill

As a result of the Yucatan Foods acquisition, the goodwill balance as of May 26, 2019, increased by $22.2 million over the $54.5 million as of May 27, 2018. The goodwill recognized from the Yucatan Foods acquisition is primarily attributable to Yucatan Foods' long history and expected synergies from future growth and expansion of our Curation Foods business segment. Approximately 80% of the goodwill is expected to be deductible for income tax purposes. The Company will test goodwill for impairment on an annual basis or sooner, if indicators of impairment are present.

Acquisition Related Transaction Costs

As of May 26, 2019, the Company recognized $3.3 million of acquisition-related costs that were expensed as incurred and included in the Selling, general and administrative line item in the Consolidated Statements of Income. These expenses included investment banking fees, legal, accounting and tax service fees and appraisals fees.

O Acquisition

On March 1, 2017, the Company purchased substantially all of the assets of *O* for $2.5 million in cash plus contingent consideration of up to $7.5 million over the next three years based upon *O* achieving certain EBITDA targets. All accounting for this acquisition is final.

The potential earn out payment of up to $7.5 million is based on *O*'s cumulative EBITDA over the Company's fiscal years 2018 through 2020. At the end of each fiscal year, beginning in fiscal year 2018, the former owners of *O* will earn the equivalent of the EBITDA achieved by *O* for that fiscal year up to $4.6 million over the three year period. The former owners can then earn an additional $2.9 million on a dollar for dollar basis for exceeding $6.0 million of cumulative EBITDA over the three year period. Each quarter the Company performs, with the assistance of a third party appraiser, an analysis of O's projected EBITDA over the earnout period. Based on this analysis, the Company records a contingent consideration liability, included in Other non-current liabilities.

As of May 26, 2019, May 27, 2018, and May 28, 2017, the contingent consideration liability was $0.5 million, $4.0 million, and $5.9 million, respectively, representing the present value of the expected earn out payments. The reduction in the contingent consideration liability was $3.5 million and $1.9 million for fiscal years 2019 and 2018, respectively, and is recorded as a reduction to SG&A in the accompanying Consolidated Statements of Income. The $3.5 million reduction during fiscal year 2019 was due to a very poor olive harvest in California during 2018 resulting in substantially lower volumes of olive oil available for sale over the next twelve months. This coupled with a slower than anticipated start up of apple cider vinegar sales has reduced the current projected EBITDA through fiscal year 2020.

Intangible Assets

The Company identified two intangible assets in connection with the *O* acquisition: trade names and trademarks valued at $1.6 million, which are considered to be indefinite life assets and therefore, will not be amortized; and customer base valued at $0.7 million with an eleven year useful life. The trade name/trademark intangible asset was valued using the relief from royalty valuation method and the customer relationship intangible asset was valued using the excess earnings method.

Goodwill

The excess of the consideration transferred over the fair values assigned to the assets acquired and liabilities assumed was $5.2 million on the closing date, which represents the goodwill amount resulting from the acquisition which can be attributable to *O*'s long history, future prospects and the expected operating synergies with Curation Foods' salad business and distribution and logistics capabilities. The Company will test goodwill for impairment on an annual basis or sooner, if indicators of impairment exist.

Acquisition-Related Transaction Costs

The Company recognized $0.2 million of acquisition-related expenses that were expensed in the year ended May 28, 2017 and are included in selling, general and administrative expenses in the Consolidated Statements of Income for the year ended May 28, 2017. These expenses included legal, accounting and tax service fees and appraisals fees.

3. Investment in Non-public Company

Windset

On February 15, 2011, Curation Foods entered into a share purchase agreement (the "Windset Purchase Agreement") with Windset. Pursuant to the Windset Purchase Agreement, Curation Foods purchased from Windset 150,000 Senior A preferred shares for $15.0 million and 201 common shares for $201. On July 15, 2014, Curation Foods increased its investment in Windset by purchasing from the Newell Capital Corporation an additional 68 common shares and 51,211 junior preferred shares of Windset for $11.0 million. After this purchase, the Company's common shares represent a 26.9% ownership interest in Windset. The Senior A preferred shares yield a cash dividend of 7.5% annually. The dividend is payable within 90 days of each anniversary of the execution of the Windset Purchase Agreement. The non-voting junior preferred stock does not yield a dividend unless declared by the Board of Directors of Windset and no such dividend has been declared.

The Shareholders' Agreement between Curation Foods and Windset, as amended on March 15, 2017, includes a put and call option (the "Put and Call Option"), which can be exercised on or after March 31, 2022, whereby Curation Foods can exercise the put to sell its common, Senior A preferred shares, and junior preferred shares to Windset, or Windset can exercise the call to purchase those shares from Curation Foods, in either case, at a price equal to 26.9% of the fair market value of Windset's common shares, plus the liquidation value of the preferred shares of $20.1 million ($15.0 million for the Senior A preferred shares and $5.1 million for the junior preferred shares). Under the terms of the arrangement with Windset, the Company is entitled to designate one of five members on the Board of Directors of Windset.

On October 29, 2014, Curation Foods further increased its investment in Windset by purchasing 70,000 shares of Senior B preferred shares for $7.0 million. The Senior B preferred shares pay an annual dividend of 7.5% on the amount outstanding at each anniversary date of the Windset Purchase Agreement. The Senior B preferred shares purchased by Curation Foods have a put feature whereby Curation Foods can sell back to Windset the Senior B preferred shares for $7.0 million at any time after October 29, 2017.

During the fourth quarter of fiscal year 2019, the Company exercised its put feature and sold the 70,000 shares of Senior B preferred shares back to Windset for $7.0 million.

The investment in Windset does not qualify for equity method accounting as the investment does not meet the criteria of in-substance common stock due to returns through the annual dividend on the non-voting senior preferred shares that are not available to the common stock holders. As the put and call options require all of the various shares to be put or called in equal proportions, the Company has deemed that the investment, in substance, should be treated as a single security for purposes of accounting.

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

The Company recorded $1.7 million in dividend income for each of the fiscal years ended May 26, 2019, May 27, 2018 and May 28, 2017, respectively. The decrease in the fair market value of the Company’s investment in Windset for the fiscal year ended May 26, 2019 was $5.4 million, which included a decrease of $7.0 million related to the Company's selling back to Windset its Senior B preferred shares which is included as cash flow from investing activities in the accompanying Consolidated Statements of Cash Flows, and an increase in fair market value of $1.6 million which is included in other income in the accompanying Consolidated Statements of Income. The increase in the fair market value of the Company’s investment in Windset for the fiscal years ended May 27, 2018 and May 28, 2017 was $2.9 million and $0.9 million, respectively, and is included in other income in the accompanying Consolidated Statements of Income.

4. Property and Equipment

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

	Years of Useful Life	Year Ended May 26, 2019	Year Ended May 27, 2018
Land and buildings	15 - 40	$ 108,428	$ 90,712
Leasehold improvements	3 - 20	6,974	2,607
Computers, capitalized software, machinery, equipment and autos	3 - 20	127,370	120,418
Furniture and fixtures	3 - 7	2,828	1,673
Construction in process		34,206	13,100
Gross property and equipment		279,806	228,510
Less accumulated depreciation and amortization		(79,779)	(68,886)
Net property and equipment		$ 200,027	$ 159,624

Depreciation and amortization expense for property and equipment for the fiscal years ended May 26, 2019, May 27, 2018 and May 28, 2017 was $13.1 million, $11.0 million and $9.6 million, respectively. Amortization related to capitalized leases, which is included in depreciation expense, was $0.1 million for each of the fiscal years ended May 26, 2019, May 27, 2018 and May 28, 2017, respectively.

During fiscal years 2019, 2018, and 2017, the Company capitalized $1.0 million, $0.9 million, and $2.2 million in software development costs, respectively. Amortization related to capitalized software was $0.9 million, $0.6 million, and $0.4 million for fiscal years ended May 26, 2019, May 27, 2018 and May 28, 2017, respectively. The unamortized computer software costs as of May 26, 2019 and May 27, 2018 was $2.8 million and $2.5 million, respectively. Capitalized interest was $0.7 million, $0.6 million, and $0.5 million for fiscal years ended May 26, 2019, May 27, 2018 and May 28, 2017, respectively.

Assets Held for Sale after the Balance Sheet Date

In June 2019, the Company designated the Santa Maria office as the Curation Foods headquarters, and decided to close and put up for sale the Curation Foods office in San Rafael, CA. The San Rafael property, included in land and buildings, has been designated as held for use within the Consolidated Balance Sheets as of May 26, 2019, as no finalized plan for disposition existed at fiscal year end. The disposal is expected to occur by the end of the calendar year, and is not expected to have a material impact to the Company's financial statements.

5. Goodwill and Intangible Assets

Goodwill

The following table presents the changes in goodwill during fiscal 2019 and fiscal 2018 (in thousands):

	2019	2018
Balance at beginning of year	$ 54,510	$ 54,510
Acquisition of Yucatan (Note 2)	22,232	—
Balance at end of year	$ 76,742	$ 54,510

As of May 26, 2019, the Curation Foods reporting unit had $62.8 million of goodwill and the Lifecore reporting unit had $13.9 million of goodwill.

Intangible Assets

As of May 26, 2019 and May 27, 2018, the Company's intangible assets consisted of the following (in thousands):

		May 26, 2019		May 27, 2018	
	Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships					
Eat Smart (Curation Foods)	13	$ 7,500	$ 4,087	$ 7,500	$ 3,510
O (Curation Foods)	11	700	143	700	83
Yucatan Foods (Curation Foods)	12	11,000	550	—	—
Lifecore	12	3,700	2,801	3,700	2,493
Total customer relationships		$ 22,900	$ 7,581	$ 11,900	$ 6,086
Trademarks and tradenames					
Eat Smart (Curation Foods)		$ 9,100	$ 872	$ 11,100	$ 872
O (Curation Foods)		1,600	—	1,600	—
Yucatan Foods (Curation Foods)		15,900	—	—	—
Lifecore		4,200	—	4,200	—
Total trademarks and tradenames		$ 30,800	$ 872	$ 16,900	$ 872
Total intangible assets		$ 53,700	8,453	$ 28,800	$ 6,958

Amortization expense related to finite-lived intangible assets was $1.5 million, $1.0 million, and $0.9 million in fiscal 2019, 2018, and 2017, respectively. The amortization expense for the next five fiscal years is estimated to be $1.9 million per year.

6. Stock-based Compensation and Stockholders' Equity

Common Stock and Stock Option Plans

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

On October 19, 2017, 1.0 million shares were added to the Plan following stockholder approval at the 2017 Annual Meeting of Stockholders.

The Plan provides for the grant of stock options (both nonstatutory and incentive stock options), stock grants, stock units and stock appreciation rights. Awards under the Plan will be evidenced by an agreement with the Plan participants and 2.0 million shares of the Company's Common Stock ("Shares") were initially available for award under the Plan. Under the Plan, no recipient may receive awards during any fiscal year that exceeds the following amounts: (i) stock options covering in excess of 500,000 Shares; (ii) stock grants and stock units covering in excess of 250,000 Shares in the aggregate; or (iii) stock appreciation rights covering more than 500,000 Shares. In addition, awards to non-employee directors are discretionary. However, a non-employee director may not be granted awards in excess of 30,000 Shares in the aggregate during any fiscal year. The exercise price of the options is the fair market value of the Company's Common Stock on the date the options are granted. As of May 26, 2019, 2,256,689 options to purchase shares and restricted stock units ("RSUs") were outstanding.

On October 15, 2009, following stockholder approval at the Annual Meeting of Stockholders of the Company, the 2009 Stock Incentive Plan (the "2009 Plan") became effective and replaced the Company's 2005 Stock Incentive Plan. Employees (including officers), consultants and directors of the Company and its subsidiaries and affiliates were eligible to participate in the 2009 Plan. The 2009 Plan provided for the grant of stock options (both nonstatutory and incentive stock options), stock grants, stock units and stock appreciation rights. Under the 2009 Plan, 1.9 million shares were initially available for awards and as of May 26, 2019, 171,833 options to purchase shares and RSUs were outstanding.

At May 26, 2019, the Company had 2.5 million common shares reserved for future issuance under Landec stock incentive plans.

Convertible Preferred Stock

The Company has authorized 2.0 million shares of preferred stock, and as of May 26, 2019 has no outstanding preferred stock.

Grant Date Fair Value

The Company uses the Black-Scholes option pricing model to calculate the grant date fair value of stock option awards. The use of an option pricing model requires the Company to make estimates and assumptions, including the expected stock price volatility, expected life of option awards, risk-free interest rate, and expected dividend yield which have a significant impact on the fair value estimates. As of May 26, 2019, May 27, 2018 and May 28, 2017, the fair value of stock option grants was estimated using the following weighted average assumptions:

	Year Ended		
	May 26, 2019	May 27, 2018	May 28, 2017
Options granted	368,264	498,000	240,000
Weighted-average exercise price	$11.85	$12.93	$11.58
Weighted-average grant date fair value	$2.80	$2.90	$2.37
Assumptions:			
Expected life (in years)	3.50	3.50	3.50
Risk-free interest rate	2.47%	1.73%	1.08%
Volatility	27%	27%	26%
Dividend yield	—%	—%	—%

Stock-Based Compensation Activity

A summary of the activity under the Company's stock option plans as of May 26, 2019 and changes during the fiscal year then ended is presented below:

	Options Outstanding	Weighted-Average Exercise Price Per Share	Total Intrinsic Value of Options Exercised	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Options outstanding at May 29, 2016	1,731,474	$ 11.90			
Options granted	240,000	$ 11.58			
Options exercised	(357,639)	$ 5.93	$ 2,780,597		
Options forfeited	(42,293)	$ 12.16			
Options expired	—	$ —			
Options outstanding at May 28, 2017	1,571,542	$ 13.20			
Options granted	498,000	$ 12.93			
Options exercised	(29,333)	$ 7.36	$ 177,921		
Options forfeited	(23,334)	$ 12.55			
Options expired	(61,540)	$ 14.23			
Options outstanding at May 27, 2018	1,955,335	$ 13.20			
Options granted	368,264	$ 11.85			
Options exercised	(116,834)	$ 11.82	$ 265,911		
Options forfeited	(71,669)	$ 13.75			
Options expired	(135,000)	$ 14.18			
Options outstanding at May 26, 2019	2,000,096	$ 12.94		3.29	$ 16,807
Options exercisable at May 26, 2019	1,524,473	$ 13.30		2.41	$ 5,467

A summary of the Company's restricted stock unit award activity as of May 26, 2019 and changes during the fiscal year then ended is presented below:

	Restricted Stock Units Outstanding	Weighted-Average Grant Date Fair Value Per Share
Restricted stock units outstanding at May 29, 2016	526,841	$ 13.51
Granted	130,522	$ 13.37
Vested	(130,508)	$ 13.42
Forfeited	(17,500)	$ 12.46
Restricted stock units outstanding at May 28, 2017	509,355	$ 13.53
Granted	200,288	$ 13.12
Vested	(270,656)	$ 14.06
Forfeited	(30,950)	$ 11.75
Restricted stock units outstanding at May 27, 2018	408,037	$ 12.99
Granted	333,486	$ 13.15
Vested	(237,946)	$ 13.27
Forfeited	(75,150)	$ 13.92
Restricted stock units outstanding at May 26, 2019	428,427	$ 12.80

Stock-Based Compensation Expense

The following table summarizes the stock-based compensation by income statement line item:

	Year Ended		
(in thousands)	May 26, 2019	May 27, 2018	May 28, 2017
Cost of sales	$ 449	$ 535	$ 485
Research and development	114	131	83
Selling, general and administrative	2,997	3,737	3,396
Total stock-based compensation	$ 3,560	$ 4,403	$ 3,964

As of May 26, 2019, there was $4.4 million of total unrecognized compensation expense related to unvested equity compensation awards granted under the Landec stock incentive plans. Total expense is expected to be recognized over the weighted-average period of 1.94 years for stock options and 2.09 years for restricted stock unit awards.

Stock Repurchase Plan

On July 14, 2010, the Board of Directors of the Company approved the establishment of a stock repurchase plan which allows for the repurchase of up to $10.0 million of the Company’s Common Stock. The Company may repurchase its Common Stock from time to time in open market purchases or in privately negotiated transactions. The timing and actual number of shares repurchased is at the discretion of management of the Company and will depend on a variety of factors, including stock price, corporate and regulatory requirements, market conditions, the relative attractiveness of other capital deployment opportunities and other corporate priorities. The stock repurchase program does not obligate Landec to acquire any amount of its Common Stock and the program may be modified, suspended or terminated at any time at the Company's discretion without prior notice. During fiscal years 2019, 2018 and 2017, the Company did not purchase any shares on the open market.

7. Debt

On September 23, 2016, the Company entered into a Credit Agreement with JPMorgan, BMO, and City National Bank, as lenders (collectively, the “Lenders”), and JPMorgan as administrative agent, pursuant to which the Lenders provided the Company with a $100.0 million revolving line of credit (the “Revolver”) and a $50.0 million term loan facility (the “Term Loan”), guaranteed by each of the Company’s direct and indirect subsidiaries and secured by substantially all of the Company’s assets, with the exception of the Company’s investment in Windset.

On November 30, 2018, the Company entered into the Fourth Amendment to the Credit Agreement (the "Amendment"), which increased the Term Loan to $100.0 million and the Revolver to $105.0 million. Both the Revolver and the Term Loan continue to mature on September 23, 2021, with the Term Loan requiring quarterly principal payments to increase to $2.5 million beginning March 1, 2019, with the remainder continuing to be due at maturity.

The primarily purpose of the Amendment was to fund the Company's acquisition of Yucatan Foods and its related entities on December 1, 2018, to pay certain fees and expenses incurred in connection with the consummation of the Amendment, and for other general corporate purposes. See Note 2 - Acquisitions for more details on Yucatan Foods acquisition.

Interest on both the Revolver and the Term Loan continues to be based upon the Company’s leverage ratio (generally defined as the ratio of the Company’s total indebtedness on such date to the Company’s consolidated EBITDA for the period of four consecutive fiscal quarters ended on or most recently prior to such date), at a per annum rate of either (i) the prime rate plus a spread of between 0.25% and 2.25% or (ii) the Eurodollar rate plus a spread of between 1.25% and 3.25%. The Amendment increased the leverage ratio covenant to 4.50 to 1.00 from 3.50 to 1.00 through August 25, 2019, which decreases to 4.00 to 1.00 effective November 24, 2019.

The Credit Agreement provides the Company the right to increase the Revolver commitments and/or the Term Loan commitments by obtaining additional commitments either from one or more of the Lenders or another lending institution at an amount of up to $10.0 million.

The Credit Agreement continues to contain customary financial covenants and events of default under which the obligation could be accelerated and/or the interest rate increased. The Company was in compliance with all financial covenants as of May 26, 2019.

As of May 26, 2019, $52.0 million was outstanding on the Revolver, at an interest rate of 5.24% under the Eurodollar option.

Long-term debt consists of the following as of May 26, 2019 and May 27, 2018 (in thousands):

	May 26, 2019	May 27, 2018
Term loan	$ 97,500	$ 42,500
Total principal amount of long-term debt	97,500	42,500
Less: unamortized debt issuance costs	(516)	(200)
Total long-term debt, net of unamortized debt issuance costs	96,984	42,300
Less: current portion of long-term debt, net	(9,791)	(4,940)
Long-term debt, net	$ 87,193	$ 37,360

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

	Term Loan
Fiscal year 2020	$ 10,000
Fiscal year 2021	10,000
Fiscal year 2022	77,500
Fiscal year 2023 and thereafter	—
Total	$ 97,500

Derivative Instruments

On November 1, 2016, the Company entered into an interest rate swap contract (the “2016 Swap”) with BMO at a notional amount of $50.0 million. The 2016 Swap has the effect of changing the Company’s Term Loan obligation from a variable interest rate to a fixed 30-day LIBOR rate of 1.22%.

On June 25, 2018, the Company entered into an interest rate swap contract (the “2018 Swap”) with BMO at a notional amount of $30.0 million. The 2018 Swap has the effect of converting the first $30.0 million of the total outstanding amount of the Company’s 30-day LIBOR borrowings from a variable interest rate to a fixed 30-day LIBOR rate of 2.47%.

8. Income Taxes

U.S Tax Reform Impact

On December 22, 2017, the U.S. Government enacted the reconciled tax reform bill, commonly known as the Tax Cuts and Jobs Act of 2017 (the “TCJA”). The TCJA makes broad changes to the U.S. tax code including, but not limited to, reducing the Company’s federal statutory tax rate from 35%, to an average rate of 29.4% for the fiscal year ended May 27, 2018, and then 21% for the year ended May 26, 2019 and thereafter; requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations' creating a global intangibles low-taxed income inclusion and the base erosion anti-abuse tax, a new minimum tax. The TCJA also enhances and extends through 2026 the option to claim accelerated depreciation deductions on qualified property, however, the domestic manufacturing deduction, from which the Company has historically benefited, has been eliminated.

On December 22, 2017, the Securities and Exchange Commission issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118) directing taxpayers to consider the impact of the Tax Legislation as “provisional” when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. Also, in March 2018, FASB issued Accounting Standards Update No. 2018-5, Income Taxes Topic (740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, ("ASU 2018-5") to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The Company's accounting for the Tax Act was incomplete as of May 27, 2018. As of May 26, 2019, the Company’s analysis for the Transition Tax and the re-measurement of deferred taxes due to the Tax Rate Reduction was considered to be complete and the Company does not expect the analysis to change materially. Ongoing guidance and accounting interpretation for the Tax Act are expected over the coming months and years, the Company will consider any changes in the accounting of the Tax Act in the period of such additional guidance is issued.

The (benefit) provision for income taxes from continuing operations consisted of the following:

(in thousands)	Year Ended		
	May 26, 2019	May 27, 2018	May 28, 2017
Current:			
Federal	$ (67)	$ (2,854)	$ 1,388
State	63	60	39
Foreign	83	83	82
Total	79	(2,711)	1,509
Deferred:			
Federal	1,581	(7,122)	2,270
State	(142)	470	261
Total	1,439	(6,652)	2,531
Income tax (benefit) expense	$ 1,518	$ (9,363)	$ 4,040

The effective tax rate for fiscal year 2019 changed from a benefit of 64% to expense of 71% in comparison to fiscal year 2018. The increase in the income tax expense for fiscal year 2019 was primarily due to the Company's acquisition of Yucatan and the change in valuation allowance related to the foreign deferred balances, the change in ending state deferred blended rate, the limitation of deductibility of executive compensation, and partially offset by the benefit of the foreign rate differential and the federal and state research and development credits, all primarily as a result of the TCJA.

The effective tax rate for fiscal year 2018 changed from an expense of 29% to a benefit of 64% in comparison to fiscal year 2017. The decrease in the income tax expense for fiscal year 2018 was primarily due to the TCJA such as the statutory rate change for federal and state, and one-time transition tax on the repatriation of foreign earnings.

The actual provision for income taxes from continuing operations differs from the statutory U.S. federal income tax rate as follows:

(in thousands)	Year Ended		
	May 26, 2019	May 27, 2018	May 28, 2017
Tax at U.S. statutory rate (1)	$ 764	$ 4,784	$ 4,922
State income taxes, net of federal benefit	46	439	307
Tax reform	—	(14,350)	—
Change in valuation allowance	929	(176)	85
Tax credit carryforwards	(771)	(777)	(834)
Other compensation-related activity	618	566	(365)
Domestic manufacturing deduction	—	—	(243)
Other	(68)	151	168
Income tax expense (benefit)	$ 1,518	$ (9,363)	$ 4,040

(1) Statutory rate was 21.0% for fiscal year 2019, 29.4% for fiscal year 2018, and 35.0% for fiscal year 2017.

The effective tax rates for fiscal year 2019 differ from the blended statutory federal income tax rate of 21% as a result of several factors, including the Yucatan acquisition, the change in valuation allowance related to the foreign deferred balances, the foreign rate differential, the change in ending state deferred blended rate, the limitation of deductibility of executive compensation, and the benefit of federal and state research and development credits. The effective tax rates for fiscal year 2018 differ from the statutory federal blended income tax rate of 29.4% as a result of several factors, including change in ending federal and state deferred blended rate, one-time transition tax due to the repatriation of foreign earnings, the change in valuation allowance, limitation of deductibility of executive compensation, and the benefit of federal and state research and development credits. The effective tax rates for fiscal year 2017 differ from the statutory federal income tax rate of 35% as a result of several factors, including non-deductible stock-based compensation expense, disqualified dispositions of incentive stock options, excess equity compensation benefits from the adoption of ASU 2016-09, domestic manufacturing deduction, the benefit of federal and state research and development credits, the change in valuation allowance, all of which is partially offset by state taxes.

Significant components of deferred tax assets and liabilities reported in the accompanying consolidated balance sheets consisted of the following:

(in thousands)	Year Ended	
	May 26, 2019	May 27, 2018
Deferred tax assets:		
Accruals and reserves	$ 3,130	$ 1,421
Net operating loss carryforwards	9,385	1,955
Stock-based compensation	979	1,247
Research and AMT credit carryforwards	2,839	2,032
Other	461	427
Gross deferred tax assets	16,794	7,082
Valuation allowance	(4,116)	(1,337)
Net deferred tax assets	12,678	5,745
Deferred tax liabilities:		
Depreciation and amortization	(14,324)	(11,307)
Goodwill and other indefinite life intangibles	(13,351)	(8,201)
Basis difference in investment in non-public company	(4,396)	(3,722)
Deferred tax liabilities	(32,071)	(23,230)
Net deferred tax liabilities	$ (19,393)	$ (17,485)

During the fiscal year ended May 26, 2019, and May 27, 2018, excess tax deficits related to stock-based compensation of $153,000 and $38,000, respectively, were reflected in the consolidated statements of income as a component of income tax expense as a result of the adoption of ASU 2016-09, specifically related to the prospective application of excess tax deficits and tax deficiencies related to stock-based compensation.

As of May 26, 2019, the Company had federal, foreign, California, Indiana, and other state net operating loss carryforwards of approximately $26.5 million, $9.9 million, $3.4 million, $5.8 million, and $6.3 million respectively. These losses expire in different periods through 2032, if not utilized. The Company acquired additional net operating losses through the acquisition of Yucatan Foods and GreenLine Holding Company. Utilization of these acquired net operating losses in a specific year is limited due to the “change in ownership” provision of the Internal Revenue Code of 1986 and similar state provisions. The net operating losses presented above for federal and state purposes is net of any such limitation.

The Company has federal, California, and Minnesota research and development tax credit carryforwards of approximately $0.9 million, $1.8 million, and $1.0 million, respectively. The research and development tax credit carryforwards have an unlimited carryforward period for California purposes, 20 year carryforward for federal purposes, and 15 year carryforward for Minnesota purposes.

Valuation allowances are reviewed each period on a tax jurisdiction by jurisdiction basis to analyze whether there is sufficient positive or negative evidence to support a change in judgment about the realizability of the related deferred tax assets. Based on this analysis and considering all positive and negative evidence, the Company determined that a valuation allowance of $4.1 million should be recorded as a result of uncertainty around the utilization of certain state and foreign net operating losses, and federal capital loss carryforward.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(in thousands)	Year Ended		
	May 26, 2019	May 27, 2018	May 28, 2017
Unrecognized tax benefits – beginning of the period	$ 479	$ 537	$ 842
Gross increases – tax positions in prior period	29	21	11
Gross decreases – tax positions in prior period	—	—	(90)
Gross increases – current-period tax positions	133	116	93
Settlements	—	(95)	—
Lapse of statute of limitations	(25)	(100)	(319)
Unrecognized tax benefits – end of the period	$ 616	$ 479	$ 537

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

As of May 26, 2019, the total amount of net unrecognized tax benefits is $0.6 million, of which, $0.5, if recognized, would change the effective tax rate. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. The total amount of penalties and interest is not material as of May 26, 2019. Additionally, the Company expects its unrecognized tax benefits to decrease by approximately $32,000 within the next 12 months.

Due to tax attribute carryforwards, the Company is subject to examination for tax years 2016 forward for U.S. tax purposes. The Company was also subject to examination in various state jurisdictions for tax years 2012 forward, none of which were individually material.

9. Commitments and Contingencies

Operating Leases

Landec leases land, facilities, and equipment under operating lease agreements with various terms and conditions, which expire at various dates through fiscal year 2030. Certain of these leases have renewal options.

The approximate future minimum lease payments under these operating leases at May 26, 2019 are as follows (in thousands):

	Amount
Fiscal year 2020	$ 5,056
Fiscal year 2021	4,044
Fiscal year 2022	3,589
Fiscal year 2023	3,350
Fiscal year 2024	3,047
Thereafter	9,335
Total	$ 28,421

Rent expense for operating leases, including month to month arrangements was $7.3 million, $6.1 million and $5.6 million for the fiscal years 2019, 2018 and 2017, respectively.

Capital Leases

On September 3, 2015, Lifecore leased a 65,000 square foot building in Chaska, MN, two miles from its current facility. The initial term of the lease is seven years with two five-year renewal options. The lease contains a buyout option at any time after year seven with the purchase price equal to the mortgage balance on the lessor’s loan secured by the building. Included in property, plant and equipment as of May 26, 2019 is $3.4 million associated with this capital lease. The monthly lease payment was initially $34,000 and increases by 2.4% per year. Lifecore and the lessor made capital improvements prior to occupancy and thus the lease did not become effective until January 1, 2016. Lifecore is currently using the building for warehousing and final packaging.

Future minimum lease payments under capital leases for each year presented as are follows (in thousands):

	Amount
Fiscal year 2020	$ 486
Fiscal year 2021	489
Fiscal year 2022	460
Fiscal year 2023	3,490
Fiscal year 2024	—
Thereafter	—
Total minimum lease payment	4,925
Less: amounts representing interest and taxes	(1,291)
Total	3,634
Less: current portion included in other accrued liabilities	(102)
Long-term capital lease obligation	$ 3,532

Purchase Commitments

At May 26, 2019, the Company was committed to purchase $30.6 million of produce and other materials.

Legal Contingencies

In the ordinary course of business, the Company is involved in various legal proceedings and claims.

The Company makes a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least each fiscal quarter and adjusted to reflect the impacts of negotiations, estimate settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. Legal fees are expensed in the period in which they are incurred.

Curation Foods has been the target of a union organizing campaign which has included two unsuccessful attempts to unionize Curation Foods' Guadalupe, California processing plant. The campaign has involved a union and over 100 former and current employees of Pacific Harvest, Inc. and Rancho Harvest, Inc. (collectively "Pacific Harvest"), Curation Foods' labor contractors at its Guadalupe, California processing facility, bringing legal actions before various state and federal agencies, the California Superior Court, and initiating over 100 individual arbitrations against Curation Foods and Pacific Harvest.

The legal actions consisted of three main types of claims: (1) Unfair Labor Practice claims ("ULPs") before the National Labor Relations Board (“NLRB”), (2) discrimination/wrongful termination claims before state and federal agencies and in individual arbitrations, and (3) wage and hour claims as part of two Private Attorney General Act (“PAGA”) cases in state court and in over 100 individual arbitrations.

A settlement of the ULPs among the union, Curation Foods, and Pacific Harvest that were pending before the NLRB was approved on December 27, 2016 for $0.3 million. Curation Foods was responsible for half of this settlement, or $0.2 million. On May 5, 2017, the parties to the remaining actions executed a settlement agreement concerning the discrimination/wrongful termination claims and the wage and hour claims which covers all non-exempt employees of Pacific Harvest working at Curation Foods' Guadalupe, California processing facility from September 2011 through the settlement date. Under the settlement agreement, the plaintiffs are to be paid $6.0 million in three installments, $2.4 million of which was paid on July 3, 2017, $1.8 million of which was paid on November 22, 2017 and $1.8 million of which was paid in July 2018. The Company and Pacific Harvest have each agreed to pay one half of the settlement payments. The Company paid the entire first two installments of $4.2 million and will be reimbursed by Pacific Harvest for its $2.1 million portion, of which $1.0 million and $0.6 million is included in Prepaid and other current assets and Other assets, respectively, in the accompanying Consolidated Balance Sheets. This receivable will be repaid through monthly payments until fully paid, which the Company expects to occur by December 2020. The Company and Pacific Harvest each paid their portion of the third installment in July 2018. The Company’s recourse against non-payment by Pacific Harvest is its security interest in assets owned by Pacific Harvest. The receivable is reviewed quarterly for collectability. At May 26, 2019, the Company has concluded that the receivable is collectible.

For fiscal years 2019, 2018 and 2017, the Company incurred legal expenses of $0, $0.6 million and $2.1 million, respectively, related to these actions. During the twelve months ended May 28, 2017, the Company recorded a legal settlement charge of $2.6 million related to these actions. As of May 26, 2019 and May 27, 2018, the Company had accrued $0 and $1.0 million related to these actions, which is included in Other accrued liabilities in the accompanying Consolidated Balance Sheets.

10. Business Segment Reporting

Prior to May 2018, the Company managed its business operations through three strategic reportable business segments: Packaged Fresh Vegetables, Food Export, and Biomaterials. These segments were based upon the information reported to the Chief Executive Officer, who is the chief operating decision maker (“CODM”). However, in May 2018, the Company discontinued its Food Export business segment. As a result, the Company met the requirements of ASC 205-20 and ASC 360 to report the results of the Food Export business segment as discontinued operations. The operating results for the Food Export business segment, for the twelve months ended May 27, 2018 and May 28, 2017, have been reclassified to discontinued operations and are no longer reported as a separate segment.

Beginning in fiscal year 2019, the Company realigned the management of its business and started using three strategic reportable business segments: the Curation Foods segment, the Lifecore segment, and the Other segment (previously known as Natural Foods, Biomaterials, and Other segments until the third quarter of fiscal 2019 when the Company completed the rebranding of its natural food business by announcing the new name Curation Foods. See Note 1 - Organization, Basis of Presentation, and Summary of Significant Accounting Policies for more information).

The Company decided to discontinue its Now Planting business during the fourth quarter of fiscal year 2019. As a result, the operating results for the Now Planting business are presented as a discontinued operations in the Company's accompanying Consolidated Financial Statements and the financial results for fiscal years 2019 have been reclassified to present the Now Planting business as a discontinued operation.

Curation Foods business includes (i) four natural food brands, including the Company’s two existing brands, Eat Smart and O Olive Oil & Vinegar, as well as two new brands, Yucatan and Cabo Fresh acquired by the Company through the acquisition of Yucatan Foods during the third quarter of fiscal 2019 (see the Note 2 - Acquisitions for more details on this transaction), and (ii) BreatheWay® activities. The Curation Foods segment includes activities to market and pack specialty packaged whole and fresh-cut fruit and vegetables, the majority of which incorporate the BreatheWay specialty packaging for the retail grocery, club store and food services industry and are sold primarily under the Eat Smart brand and various private labels. The Curation Foods segment also includes sales of BreatheWay packaging to partners for fruit and vegetable products, sales of olive oils and wine vinegars under the O brand, and sales of avocado products under the recently acquired brands Yucatan and Cabo Fresh.

The Lifecore segment sells products utilizing hyaluronan, a naturally occurring polysaccharide that is widely distributed in the extracellular matrix of connective tissues in both animals and humans, and non-HA products for medical use primarily in the Ophthalmic, Orthopedic and other markets.

The Other segment includes corporate general and administrative expenses, non-Curation Foods and non-Lifecore interest income and income tax expenses.

All of the Company's assets are located within the United States of America except for the production facility in Mexico, which was acquired by the Company as a result of the Yucatan Foods acquisition. The following table presents our property and equipment, net by geographic region (in millions):

	Year Ended	
Property and equipment, net	May 26, 2019	May 27, 2018
United States	$ 186.3	$ 159.6
Mexico	13.7	—
Total property and equipment, net	$ 200.0	$ 159.6

The Company’s international sales by geography are based on the billing address of the customer and were as follows (in millions):

	Year Ended		
	May 26, 2019	May 27, 2018	May 28, 2017
Canada	$ 83.6	$ 78.0	$ 69.3
Belgium	$ 15.1	$ 17.2	$ 21.0
Ireland	$ 5.0	$ 4.1	$ 4.0
All Other Countries	$ 5.1	$ 3.6	$ 4.6

Operations by segment consisted of the following (in thousands):

Year Ended May 26, 2019	Curation Foods (1)	Lifecore	Other (2)	Total
Net sales	$ 481,686	$ 75,873	$ —	$ 557,559
Gross profit	49,305	31,698	—	81,003
Net income (loss) from continuing operations	(6,229)	12,070	(3,719)	2,122
Identifiable assets	367,352	145,558	6,181	519,091
Depreciation and amortization	10,360	4,140	730	15,230
Capital expenditures	30,583	12,965	1,186	44,734
Dividend income	1,650	—	—	1,650
Interest income	112	—	33	145
Interest expense, net	3,278	—	1,952	5,230
Income tax (benefit) expense	(1,373)	4,024	(1,133)	1,518
Year Ended May 27, 2018				
Net sales	$ 458,800	$ 65,427	$ —	$ 524,227
Gross profit	49,770	28,568	—	78,338
Net income (loss) from continuing operations	17,010	11,631	(2,880)	25,761
Identifiable assets (3)	264,067	129,342	11,294	404,703
Depreciation and amortization	8,196	3,679	537	12,412
Capital expenditures	13,052	16,454	4,084	33,590
Dividend income	1,650	—	—	1,650
Interest income	93	—	118	211
Interest expense, net	1,554	—	396	1,950
Income tax (benefit) expense	(9,748)	2,638	(2,253)	(9,363)
Year Ended May 28, 2017				
Net sales	$ 410,384	$ 59,392	$ —	$ 469,776
Gross profit	52,457	26,755	—	79,212
Net income (loss) from continuing operations	2,410	10,228	(2,503)	10,135
Identifiable assets (3)	219,739	104,492	34,377	358,608
Depreciation and amortization	7,312	3,054	311	10,677
Capital expenditures	11,476	11,169	358	23,003
Dividend income	1,650	—	—	1,650
Interest income	16	—	—	16
Interest expense, net	674	13	1,139	1,826
Income tax expense	823	2,938	279	4,040

(1) The Curation segment operating results for the year ended May 26, 2019 reflect the reclassification of the Now Planting brand to discontinued operations.
(2) The Other segment operating results for the year ended May 26, 2019, May 27, 2018, and May 28, 2017 have been restated to reflect the reclassification of the Now Planting brand and the Food Export segment to discontinued operations, and the reclassification of *O* operating results from the Other segment to the Curation Foods segment.
(3) Assets of discontinued operations are included in Other for the years ended May 27, 2018 and May 28, 2017.

11. Quarterly Consolidated Financial Information (unaudited)

The following is a summary of the unaudited quarterly results of operations for fiscal years 2019 and 2018 (in thousands, except for per share amounts):

Fiscal Year 2019	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Revenues	$ 124,668	$ 124,557	$ 155,554	$ 152,780	$ 557,559
Gross profit	16,337	16,885	21,569	26,212	81,003
Net income (loss) from continuing operations	335	(113)	1,533	367	2,122
Net income (loss) applicable to common stockholders	190	(584)	1,067	(262)	411
Net income per basic share from continuing operations	$ 0.01	$ —	$ 0.05	$ 0.01	$ 0.07
Net income per diluted share from continuing operations	$ 0.01	$ —	$ 0.05	$ 0.01	$ 0.07

Fiscal Year 2018	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Revenues	$ 115,781	$ 122,461	$ 144,909	$ 141,076	$ 524,227
Gross profit	18,802	14,921	19,806	24,809	78,338
Net income from continuing operations	2,355	414	16,281	6,711	25,761
Net income applicable to common stockholders	2,146	487	16,088	6,108	24,829
Net income per basic share from continuing operations	$ 0.08	$ 0.02	$ 0.59	$ 0.24	$ 0.93
Net income per diluted share from continuing operations	$ 0.08	$ 0.02	$ 0.58	$ 0.24	$ 0.92

12. Discontinued Operations

Now Planting and Food Export

During the fourth quarter of fiscal year 2019, the Company discontinued its Now Planting business. During the fourth quarter of fiscal year 2018, the Company discontinued its Food Export business. As a result, the Company met the requirements of ASC 205-20 to report the results of Now Planting and Food Export as discontinued operations and to classify any assets and liabilities as held for abandonment. The operating results for the Now Planting soup business and Food Export business have therefore been reclassified as a discontinued operation.

The carrying amounts of the major classes of assets and liabilities of Now Planting and Food Export business segment included in assets and liabilities of discontinued operations are as follows (in thousands):

	Year Ended	
	May 26, 2019	May 27, 2018
Current and other assets, discontinued operations:		
Cash and cash equivalents	$ —	$ (8)
Accounts receivable	—	518
Inventory	—	—
Other assets	—	—
Total assets, discontinued operations	$ —	$ 510
Other current liabilities, discontinued operations:		
Accounts payable	$ 51	$ 230
Accrued expenses and other current liabilities	14	228
Total other current liabilities, discontinued operations	$ 65	$ 458

Once Now Planting and Food Export businesses were discontinued, the operations associated with these businesses qualified for reporting as discontinued operations. Accordingly, the operating results, net of tax, from discontinued operations are presented separately in the Company's consolidated statements of income and the notes to the consolidated financial statements have been adjusted to exclude Now Planting in fiscal year 2019 and Food Export in fiscal years 2018 and 2017. Components of amounts reflected in (loss) income from discontinued operations, net of tax are as follows (in thousands):

	Year Ended		
	May 26, 2019	May 27, 2018	May 28, 2017
Revenues	$ 548	$ 29,222	$ 62,481
Cost of sales	(1,649)	(27,619)	(58,507)
Research and development	(102)	—	—
Selling, general and administrative	(1,035)	(2,522)	(3,137)
Other	—	(269)	—
(Loss) income from discontinued operations before taxes	(2,238)	(1,188)	837
Income tax benefit (expense)	527	350	(295)
(Loss) income from discontinued operations, net of tax	$ (1,711)	$ (838)	$ 542

Cash provided by (used in) operating activities by the Now Planting business totaled $(1.3) million, $0, and $0 for the fiscal years ended May 26, 2019, May 27, 2018, and May 28, 2017, respectively. Cash provided by (used in) operating activities by the Food Export business totaled $0, $0.6 million, and $(0.5) million for the fiscal years ended May 26, 2019, May 27, 2018, and May 28, 2017, respectively.

(b) Index of Exhibits.

Exhibit Number	**Exhibit Title**
3.1	Certificate of Incorporation of Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated November 7, 2008.
3.2	Amended and Restated Bylaws of Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated October 16, 2012.
3.3	Amendment No. 1 to Bylaws of Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 7, 2019.
3.4	Amendment No. 2 to Bylaws of Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 24, 2019.
10.1	Form of Indemnification Agreement incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 12, 2018.
10.2	Agreement and Plan of Merger between Landec Corporation, a California corporation, and the Registrant, dated as of November 6, 2008, incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated November 7, 2008.
10.3*	2009 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated October 19, 2009.
10.4*	Form of Stock Grant Agreement for 2009 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated October 19, 2009.
10.5*	Form of Notice of Stock Option Grant and Stock Option Agreement for 2009 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K dated October 19, 2009.
10.6*	Form of Stock Unit Agreement for 2009 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.4 to the Registrant's Current Report on Form 8-K dated October 19, 2009.
10.7*	Form of Stock Appreciation Right Agreement for 2009 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.5 to the Registrant's Current Report on Form 8-K dated October 19, 2009.

Exhibit Number	Exhibit Title
10.8*	Nonqualified Deferred Compensation Plan, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated July 31, 2013.
10.9*	2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated October 11, 2013.
10.10*	First Amendment to the 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated October 23, 2017.
10.11*	Form of Stock Grant Agreement for 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated October 11, 2013.
10.12*	Form of Notice of Stock Option Grant and Stock Option Agreement for 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K dated October 11, 2013.
10.13*	Form of Stock Unit Agreement for 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.4 to the Registrant's Current Report on Form 8-K dated October 11, 2013.
10.14*	Form of Stock Appreciation Right Agreement for 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.5 to the Registrant's Current Report on Form 8-K dated October 11, 2013.
10.15*	2019 Cash Bonus Plan, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated May 30, 2018.
10.16*	Employment Agreement between the Registrant and Gregory S. Skinner effective as of January 31, 2019, incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated January 31, 2019.
10.17*	Employment Agreements between the Registrant and Molly A. Hemmeter effective as of January 31, 2019, incorporated herein by reference to Exhibits 10.1 to the Registrant's Current Report on Form 8-K dated January 31, 2019.
10.18	Loan Agreement dated February 26, 2016 between the Registrant, Apio, Inc., Apio Cooling LP and CF Equipment Loans LLC (successor-in-interest to General Electric Capital Corporation) incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated March 3, 2016.
10.19	Promissory Note dated February 26, 2016 issued by Apio to CF Equipment Loans, LLC, incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated March 3, 2016.
10.20	Promissory Note dated February 26, 2016 issued by Apio to CF Equipment Loans, LLC, incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated March 3, 2016.
10.21	Guaranty dated February 26, 2016 between the Registrant and CF Equipment Loans, LLC, incorporated herein by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated March 3, 2016.
10.22	Credit Agreement and Pledge and Security Agreement by and between the Registrant, and JPMorgan Chase Bank, N.A., BMO Harris Bank N.A., and City National Bank, dated September 23, 2016, incorporated herein by reference to Exhibits 10.1 and 10.2 to the Registrant's Current Report on Form 8-K dated September 29, 2016.
10.23*	Long-Term Incentive Plan for Fiscal Year 2020, incorporated herein by reference to Registrant's Current Report on Form 8-K dated July 19, 2017.
10.24*	Long-Term Incentive Plan for Fiscal Year 2021, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated July 25, 2018.
10.25	Settlement Agreement amongst the Registrant, Apio, Inc., Rancho Harvest, Inc. and Pacific Harvest, Inc. and the plaintiffs named therein and Addendum to the Settlement Agreement effective as of May 5, 2017, incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 10, 2017.

Exhibit Number	Exhibit Title	
10.26	Purchase Agreement dated as of April 26, 2018, by and between Apio, Inc. Michael R. Mills, San Ysidro Farms, Inc., B&D Farms, Mahoney Brothers, and RCM Farms, LLC, incorporated here by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated May 2, 2018.	
10.27	Letter Agreement dated May 22, 2018 among Registrant, Nelson Obus and Wynnefield Capital, Inc. incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 25, 2018.	
10.28	Capital Contribution and Partnership Interest and Stock Purchase Agreement dated December 1, 2018 by and among Apio, Inc., a Delaware Corporation, Yucatan Foods, L.P., a Delaware limited partnership ("Yucatan"), Camden Fruit Corporation, a California corporation, Landec Corporation, a Delaware corporation, in its capacity as guarantor, Ardeshir Haerizadeh, as an equityholder representative, and the equityholders of Camden and Yucatan, incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated December 6, 2018.	
10.29	Fourth Amendment and Joinder to the Credit Agreement and Other Loan Documents dated November 30, 2018 by and among Landec Corporation, Apio Inc., Lifecore Biomedical, Inc., Lifecore Biomedical, LLC, and GreenLine Logistics, Inc., GMO Harris Bank N.A., City National Bank, and JPMorgan Chase Bank, N.A, incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 6, 2018.	
10.30	Employment Agreement between the Registrant and Albert D. Bolles, Ph.D., effective as of May 23, 2019, incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 23, 2019.	
21.1	Subsidiaries of the Registrant at May 26, 2019	State of Incorporation
	Curation Foods, Inc.	Delaware
	Lifecore Biomedical, Inc.	Delaware
23.1+	Consent of Independent Registered Public Accounting Firm	
24.1+	Power of Attorney – See signature page	
31.1+	CEO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002	
31.2+	CFO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002	
32.1+	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002	
32.2+	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002	
101.INS**	XBRL Instance	
101.SCH**	XBRL Taxonomy Extension Schema	
101.CAL**	XBRL Taxonomy Extension Calculation	
101.DEF**	XBRL Taxonomy Extension Definition	
101.LAB**	XBRL Taxonomy Extension Labels	
101.PRE**	XBRL Taxonomy Extension Presentation	

*	Represents a management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 15(b) of Form 10-K.
**	Information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Exhibit Number	Exhibit Title
+	Filed herewith.
#	Confidential treatment requested as to certain portions. The term “confidential treatment” and the mark “*” as used throughout the indicated Exhibit means that material has been omitted.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Santa Clara, State of California, on August 1, 2019.

LANDEC CORPORATION

By: /s/ Gregory S. Skinner

Gregory S. Skinner

Executive 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 Albert D. Bolles 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/ Albert D. Bolles, Ph.D. Albert D. Bolles, Ph.D.	President and Chief Executive Officer and Director (Principal Executive Officer)	August 1, 2019
/s/ Gregory S. Skinner Gregory S. Skinner	Executive Vice President of Finance and Administration and Chief Financial Officer	August 1, 2019
/s/ Debbie Carosella Debbie Carosella	Director	August 1, 2019
/s/ Frederick Frank Frederick Frank	Director	August 1, 2019
/s/ Nelson Obus Nelson Obus	Director	August 1, 2019
/s/ Tonia Pankopf Tonia Pankopf	Director	August 1, 2019
/s/ Andrew K. Powell Andrew K. Powell	Director	August 1, 2019
/s/ Catherine A. Sohn Catherine A. Sohn	Director	August 1, 2019
/s/ Robert Tobin Robert Tobin	Director	August 1, 2019

EXHIBIT INDEX

Exhibit Number	Exhibit Title
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney. See signature page.
31.1	CEO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	CFO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-207467) of Landec Corporation, and
(2) Registration Statement (Form S-8 Nos. 333-163926, 333-193213 and 333-221039) pertaining to the 2009 Stock Incentive Plan and 2013 Stock Incentive Plan of Landec Corporation;

of our reports dated August 1, 2019, with respect to the consolidated financial statements of Landec Corporation and the effectiveness of internal control over financial reporting of Landec Corporation included in this Annual Report (Form 10-K) of Landec Corporation for the year ended May 26, 2019.

/s/ Ernst & Young LLP

San Francisco, California
August 1, 2019

Exhibit 31.1

CERTIFICATION

I, Albert D. Bolles, Ph.D., certify that:

1. I have reviewed this annual report on Form 10-K of Landec Corporation;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2019

By: /s/ Albert D. Bolles, Ph.D.

Albert D. Bolles, Ph.D.

President and Chief Executive Officer and Director (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Gregory S. Skinner, certify that:

1. I have reviewed this annual report on Form 10-K of Landec Corporation;

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2019

By: /s/ Gregory S. Skinner

Gregory S. Skinner

Executive Vice President of Finance and Administration and Chief Financial Officer

Exhibit 32.1

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

In connection with the Annual Report of Landec Corporation (the “Company”) on Form 10-K for the period ending May 26, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Albert D. Bolles, Ph.D., Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: August 1, 2019

By: /s/ Albert D. Bolles, Ph. D.

Albert D. Bolles, Ph.D.
President and Chief Executive Officer and Director
(Principal Executive Officer)

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

Exhibit 32.2

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

In connection with the Annual Report of Landec Corporation (the “Company”) on Form 10-K for the period ending May 26, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gregory S. Skinner, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: August 1, 2019

By: /s/ Gregory S. Skinner

Gregory S. Skinner

Executive Vice President of Finance and Administration and Chief Financial Officer

(Principal Accounting Officer)

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