

Registrant's telephone number, including area code:

(650) 306-1650

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

Yes No

Indicate by check mark whether the registrant 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 No

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

Large Accelerated Filer

Accelerated Filer

Non Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of March 22, 2016, there were 27,073,243 shares of Common Stock outstanding.

LANDEC CORPORATION

FORM 10-Q for the Fiscal Quarter Ended February 28, 2016

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****LANDEC CORPORATION****CONSOLIDATED BALANCE SHEETS****(In thousands except shares and per share amounts)**

	February 28, 2016 (unaudited)	May 31, 2015 (1)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,214	\$ 14,127
Accounts receivable, less allowance for doubtful accounts of \$366 and \$382 at February 28, 2016 and May 31, 2015, respectively	42,924	46,479
Inventories, net	27,161	25,027
Deferred taxes	—	2,111
Prepaid expenses and other current assets	5,606	5,458
Total Current Assets	83,905	93,202
Investment in non-public company, fair value	62,500	61,500
Property and equipment, net	108,719	84,465
Goodwill, net	49,620	49,620
Tradenames, net	14,428	48,428
Customer relationships, net	7,189	7,835
Other assets	2,316	1,415
Total Assets	\$ 328,677	\$ 346,465
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 25,091	\$ 35,009
Income taxes payable	79	1,229
Accrued compensation	4,206	6,742
Other accrued liabilities	7,282	3,983
Deferred revenue	1,152	843
Current portion of long-term debt	8,546	8,353
Total Current Liabilities	46,356	56,159
Long-term debt, less current portion	48,607	34,166
Capital lease obligation, less current portion	3,711	—
Deferred taxes	21,669	34,340

Other non-current liabilities	1,728	1,691
Total Liabilities	122,071	126,356
Stockholders' Equity:		
Common stock, \$0.001 par value; 50,000,000 shares authorized; 27,071,277 and 26,990,490 shares issued and outstanding at February 28, 2016 and May 31, 2015, respectively	27	27
Additional paid-in capital	136,303	133,307
Retained earnings	68,728	85,098
Total Stockholders' Equity	205,058	218,432
Non-controlling interest	1,548	1,677
Total Equity	206,606	220,109
Total Liabilities and Stockholders' Equity	\$ 328,677	\$ 346,465

(1) Derived from audited financial statements.

See accompanying notes.

LANDEC CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	February 28,	March 1,	February 28,	March 1,
	2016	2015	2016	2015
Product sales	\$129,990	\$138,530	\$405,786	\$404,809
Cost of product sales	117,059	121,645	357,613	358,071
Gross profit	12,931	16,885	48,173	46,738
Operating costs and expenses:				
Research and development	1,895	1,755	5,413	5,375
Selling, general and administrative	10,659	10,298	35,638	29,106
Impairment of GreenLine tradename	34,000	—	34,000	—
Total operating costs and expenses	46,554	12,053	75,051	34,481
Operating (loss) income	(33,623)	4,832	(26,878)	12,257
Dividend income	413	413	1,238	1,015
Interest income	17	85	64	269
Interest expense	(484)	(510)	(1,425)	(1,365)
Other income	—	1,307	1,000	2,707
Net (loss) income before taxes	(33,677)	6,127	(26,001)	14,883
Income tax benefit (expense)	12,510	(2,324)	9,750	(5,409)
Consolidated net (loss) income	(21,167)	3,803	(16,251)	9,474
Non-controlling interest	(23)	(31)	(119)	(126)
Net (loss) income and comprehensive (loss) income applicable to common stockholders	\$(21,190)	\$3,772	\$(16,370)	\$9,348
Basic net (loss) income per share	\$(0.78)	\$0.14	\$(0.61)	\$0.35
Diluted net (loss) income per share	\$(0.78)	\$0.14	\$(0.61)	\$0.34
Shares used in per share computation				

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Basic	27,054	26,886	27,026	26,863
Diluted	27,054	27,363	27,026	27,314

See accompanying notes.

LANDEC CORPORATION**Consolidated Statements of Cash Flows****(Unaudited and in thousands)**

	Nine Months Ended	
	February 28, 2016	March 1, 2015
Cash flows from operating activities:		
Consolidated net (loss) income	\$(16,251)	\$9,474
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	6,486	5,177
Stock-based compensation expense	2,581	1,139
Tax benefit from stock-based compensation expense	(133)	(277)
Impairment of non-public company, non-fair value investment	—	793
Deferred taxes	(10,560)	4,313
Change in investment in non-public company, fair value	(1,000)	(3,500)
Net gain on disposal of property and equipment	(20)	(53)
Impairment of GreenLine tradename	34,000	—
Changes in current assets and current liabilities:		
Accounts receivable, net	3,555	(585)
Taxes receivable	(280)	1,000
Inventories, net	(2,135)	73
Issuance of notes and advances receivable	(635)	(4,742)
Collection of notes and advances receivable	482	4,727
Prepaid expenses and other current assets	419	(441)
Accounts payable	(9,918)	(3,803)
Income taxes payable	(1,150)	—
Accrued compensation	(2,536)	648
Restricted cash for workers' compensation collateral	(225)	—
Other accrued liabilities	3,308	(415)
Deferred revenue	309	(152)
Net cash provided by operating activities	6,297	13,376
Cash flows from investing activities:		
Purchases of property and equipment	(26,159)	(10,202)
Deposit on capital lease	(850)	—
Proceeds from sale of fixed assets	127	922
Investment in non-public company, fair value	—	(18,000)
Net cash used in investing activities	(26,882)	(27,280)
Cash flows from financing activities:		
Proceeds from sale of common stock	282	110
Tax benefit from stock-based compensation expense	133	277

Proceeds from long-term debt	26,748	11,194
Payments on long-term debt and capital lease obligations	(12,150)	(5,074)
Proceeds from lines of credit	19,500	30,417
Payments on lines of credit	(19,500)	(21,117)
Change in other assets	(93)	(255)
Payments to non-controlling interest holders	(248)	(196)
Net cash provided by financing activities	14,672	15,356
Net (decrease) increase in cash and cash equivalents	(5,913)	1,452
Cash and cash equivalents at beginning of period	14,127	14,243
Cash and cash equivalents at end of period	\$8,214	\$15,695
Supplemental disclosures of noncash investing and financing activities:		
Facility acquired under a capital lease	\$3,775	\$—

See accompanying notes.

LANDEC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Organization

Landec Corporation and its subsidiaries (“Landec” or the “Company”) design, develop, manufacture and sell differentiated products for food and biomaterials markets and license technology applications to partners. The Company has two proprietary polymer technology platforms: 1) Intelimer® polymers, and 2) hyaluronan (“HA”) biopolymers. The Company sells specialty packaged branded Eat Smart® and GreenLine® and private label fresh-cut vegetables and whole produce to retailers, club stores and foodservice operators, primarily in the United States, Canada and Asia through its Apio, Inc. (“Apio”) subsidiary and sells HA-based 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 a key differentiating advantage upon which Landec has built its business.

Basis of Presentation

The accompanying unaudited consolidated financial statements of Landec have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made which are necessary to present fairly the financial position at February 28, 2016 and the results of operations and cash flows for all periods presented. Although Landec believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission. The accompanying financial data should be reviewed in conjunction with the audited financial statements and accompanying notes included in Landec’s Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

The results of operations for the nine months ended February 28, 2016 are not necessarily indicative of the results that may be expected for an entire fiscal year because there is some seasonality in Apio’s food business, particularly, Apio’s

export business and the order patterns of Lifecore's customers which may lead to significant fluctuations in Landec's quarterly results of operations.

Basis of Consolidation

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

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

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

Use of Estimates

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

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

Cash and Cash Equivalents

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

Financial Instruments

The Company's financial instruments are primarily composed of marketable securities, commercial-term trade payables, grower advances, notes receivable and debt instruments. For short-term instruments, the historical carrying amount approximates the fair value of the instrument. The fair value of long-term debt and lines of credit approximates their carrying value. Fair values for long-term financial instruments not readily marketable are estimated based upon discounted future cash flows at prevailing market interest rates. Based on these assumptions, management believes the fair values of the Company's financial instruments are not materially different from their recorded amounts as of February 28, 2016 and May 31, 2015.

Investment in Non-Public Company

On February 15, 2011, Apio purchased 150,000 senior preferred shares for \$15 million and 201 common shares for \$201 that were issued by Windset Holdings 2010 Ltd., a Canadian corporation (“Windset”). On July 15, 2014, Apio increased its investment in Windset by purchasing an additional 68 shares of common stock and 51,211 shares of junior preferred stock of Windset for \$11.0 million. On October 29, 2014, Apio purchased an additional 70,000 senior preferred shares of Windset for \$7.0 million. These investments are reported as an investment in non-public company, fair value, in the accompanying Consolidated Balance Sheets as of February 28, 2016 and May 31, 2015. The Company has elected to account for its investment in Windset under the fair value option (see Note 3).

Intangible Assets

The Company’s intangible assets are comprised of customer relationships with a finite estimated useful life of twelve to thirteen years and trademarks, tradenames and goodwill with indefinite lives.

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. Indefinite lived intangible assets are reviewed for impairment at least annually. For goodwill and other indefinite-lived intangible assets, the Company performs a qualitative impairment analysis in accordance with ASC 350-30-35.

Partial Self-Insurance on Employee Health Plan

The Company provides health insurance benefits to eligible employees under a self-insured plan whereby the Company pays actual medical claims subject to certain stop loss limits. The Company records self-insurance liabilities based on actual claims filed and an estimate of those claims incurred but not reported. Any projection of losses concerning the Company's liability is subject to a high degree of variability. Among the causes of this variability are unpredictable external factors such as inflation rates, changes in severity, benefit level changes, medical costs, and claims settlement patterns. This self-insurance liability is included in accrued liabilities and represents management's best estimate of the amounts that have been incurred but have not been paid as of February 28, 2016 and May 31, 2015. It is reasonably possible that the expense the Company ultimately incurs could differ from amounts accrued, and adjustments to future reserves may be necessary.

Long-Term Incentive Plan

On July 25, 2013, the Landec Long-Term Incentive Plan ("LTIP") was established which allows certain executives to earn a performance-based bonus that is based upon a cumulative operating income target for fiscal years 2014, 2015, and 2016. The LTIP was designed to align the interests of management with the long-term financial success of the Company. If the three-year cumulative operating income target had been met, approximately \$2.0 million in bonuses would have been paid. Through fiscal year 2014, the Company was recording the estimated plan bonus on a straight-line basis over the 36-month LTIP period. During the first quarter of fiscal year 2015, the Company determined it was unlikely the three-year cumulative operating income target would be attained and therefore all LTIP bonus accruals were reversed at that time. The reversal resulted in a \$677,000 reduction in selling, general, and administrative expenses during the nine months ended March 1, 2015 in the accompanying Consolidated Statements of Comprehensive Income.

Litigation

On September 30, 2015, plaintiffs filed a wage and hour class action lawsuit in the Superior Court of California in Santa Barbara County. Plaintiffs are non-exempt employees, or former employees, of the plant contract labor provider of Apio who allege California Labor Code violations. The Company, and its contract labor provider, are vigorously co-defending this lawsuit. The ultimate outcome of these matters is uncertain and the Company is unable to estimate the amount or the range or reasonably possible loss, if any. However, we believe we have meritorious defenses to the plaintiffs' claims.

The Company is subject to legal proceedings and claims in the ordinary course of business. However, the Company is not currently aware of any legal proceedings or claims that it believes will have, individually or in the aggregate, a

material adverse effect on the Company's financial position, results of operations or cash flows.

Fair Value Measurements

The Company uses fair value measurement accounting for financial assets and liabilities and for financial instruments and certain other items measured at fair value. The Company has elected the fair value option for its investment in a non-public company (see Note 3). 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.

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 nine months ended February 28, 2016 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:

	At February 28, 2016	At May 31, 2015
Revenue growth rates	4%	4%
Expense growth rates	4%	4%
Income tax rates	15%	15%
Discount rates	12.5%	15% to 21%

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

Impact on value of Windset investment as of February 28, 2016	
10% increase in revenue growth rates	\$ 700
10% increase in expense growth rates	\$(500)
10% increase in income tax rates	\$—
10% increase in discount rates	\$(300)

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 fair value of the Company's Windset investment as of February 28, 2016 and May 31, 2015 was \$62.5 million and \$61.5 million, respectively.

Revenue Recognition

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

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

In addition, Apio revenues include the revenues generated from Apio Cooling, LP, a vegetable cooling operation in which Apio is the general partner with a 60% ownership position and from the sale of BreatheWay® packaging to license partners. Revenue is recognized on the vegetable cooling operations as cooling and storage services are provided to the Company's customers. Sales of BreatheWay packaging are recognized when shipped to the customer.

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

Lifecore generates revenue through the sale of products containing HA and non-HA materials. Lifecore primarily sells products to customers in three medical areas: (1) Ophthalmic, which represented approximately 60% of Lifecore's revenues in fiscal year 2015, (2) Orthopedic, which represented approximately 20% of Lifecore's revenues in fiscal year 2015 and (3) Veterinary/Other. The vast majority of revenues from Lifecore are recognized upon shipment.

Lifecore's business development revenues, a portion of which are included in all three medical areas, are related to contract research and development (R&D) services and multi-element arrangement services with customers where the Company provides products and/or services in a bundled arrangement.

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

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

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

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

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

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

	Three months ended February 28, 2016	Three months ended March 1, 2015	Nine months ended February 28, 2016	Nine months ended March 1, 2015
Recorded upon shipment	\$118,789	\$128,502	\$341,914	\$344,506
Recorded upon acceptance in foreign port	6,389	8,086	50,873	56,779
Revenue from license fees, R&D contracts and royalties/profit sharing	787	153	3,327	788
Revenue from multiple element arrangements	4,025	1,789	9,672	2,736
Total	\$129,990	\$138,530	\$405,786	\$404,809

Reclassifications

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

New Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements intended to provide users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a company’s contracts with customers. ASU 2014-09 will be effective beginning the first quarter of the Company’s fiscal year 2019 with early application permitted in the first quarter of the Company’s fiscal year 2018. The standard allows for either “full retrospective” adoption, meaning the standard is applied to all of the periods presented, or “modified retrospective” adoption, meaning the standard is applied only to the most current period presented in the financial statements. Management is currently evaluating the effect ASU 2014-09 will have on the Company’s Consolidated Financial Statements and disclosures.

Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03, “Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs,” which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new guidance is effective for the Company beginning in the first quarter of fiscal year 2017, with early adoption permitted. Management does not expect that adoption of ASU 2015-03 will have a significant impact on its Consolidated Financial Statements and disclosures.

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which requires all deferred tax assets and liabilities to be presented on the consolidated balance sheets as noncurrent. Deferred Taxes were previously required to be classified as current or non-current on the consolidated balance sheets. The Company early adopted ASU 2015-17 effective February 28, 2016 on a prospective basis. Adoption of this ASU resulted in a reclassification of the Company's net current deferred tax asset to the net non-current deferred tax liability in its consolidated balance sheet as of February 28, 2016. No prior periods were retrospectively adjusted.

2. Impairment of GreenLine Tradename

During the three months ended February 28, 2016, management made the strategic decision to convert its GreenLine branded products in retail grocery stores to the Eat Smart brand over the following six month period. This decision resulted in an impairment of the GreenLine tradename. Management estimated the value of the remaining GreenLine branded foodservice sales using the relief from royalty valuation method, which resulted in an impairment of \$34.0 million. The remaining GreenLine tradename associated with the Company's foodservice business is valued at \$2.0 million. The impairment charge is recorded in the Consolidated Statements of Comprehensive Income as "Impairment of GreenLine tradename" as an operating expense under the Packaged Fresh Vegetables reporting unit.

3. Investment in non-public company

On February 15, 2011, Apio entered into a share purchase agreement (the “Windset Purchase Agreement”) with Windset. Pursuant to the Windset Purchase Agreement, Apio purchased from Windset 150,000 Senior A preferred shares for \$15 million and 201 common shares for \$201. On July 15, 2014, Apio increased its investment in Windset by purchasing from the Newell Capital Corporation an additional 68 shares of common stock and 51,211 shares of junior preferred stock of Windset for \$11.0 million. After this purchase, the Company’s common shares represent a 26.9% ownership interest in Windset. The non-voting 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 Windset Purchase Agreement includes a put and call option, which can be exercised on the sixth anniversary of the Windset Purchase Agreement whereby Apio can exercise the put to sell its common shares, Senior A preferred shares and junior preferred shares to Windset, or Windset can exercise the call to purchase those shares from Apio, in either case, at a price equal to 26.9% of the appreciation in the fair market value of Windset’s common shares from the date of the Company’s investment through the put and call date, plus the liquidation value of the preferred shares of \$20.1 million (\$15 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, Apio further increased its investment in Windset by purchasing 70,000 shares of Senior B preferred shares for \$7.0 million. The Senior B Preferred Stock pays an annual dividend of 7.5% on the amount outstanding at each anniversary date of the Windset Purchase Agreement. The Senior B shares purchased by Apio have a put feature whereby Apio can sell back to Windset \$1.5 million of shares on or after the first anniversary, an additional \$2.75 million of shares on or after the second anniversary and the remaining \$2.75 million on the third anniversary. After the third anniversary, Apio may at any time put any or all of the shares not previously sold back to Windset. At any time on or after February 15, 2017, Windset has the right to call any or all of the outstanding common shares but at such time must also call the same proportion of Senior A preferred shares, Senior B preferred shares and junior preferred shares owned by Apio. Windset’s partial call provision is restricted such that a partial call cannot result in Apio holding less than 10% of Windset’s common shares outstanding.

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.

During both the three months ended February 28, 2016 and March 1, 2015, the Company recorded \$413,000 in dividend income. During the nine months ended February 28, 2016 and March 1, 2015, the Company recorded \$1.2 million and \$1.0 million, respectively, in dividend income. The change in the fair market value of the Company's investment in Windset for the three months ended February 28, 2016 and March 1, 2015 was zero and \$2.1 million, respectively, and is included in other income in the Consolidated Statements of Comprehensive Income. The change in the fair market value of the Company's investment in Windset for the nine months ended February 28, 2016 and March 1, 2015 was \$1.0 million and \$3.5 million, respectively, and is included in other income in the Consolidated Statements of Comprehensive Income.

The Company also entered into an exclusive license agreement with Windset, which was executed in June 2010, prior to contemplation of Apio's investment in Windset. The license agreement allows Windset the use of Landec's proprietary BreatheWay packaging to extend the shelf life of greenhouse grown cucumbers, peppers and tomatoes ("Exclusive Products"). In accordance with the agreement, Apio received and recorded a one-time upfront research and development fee of \$100,000 and will receive license fees equal to 3% of net revenue of the Exclusive Products utilizing the proprietary breathable packaging technology, with or without the BreatheWay trademark. The ongoing license fees are subject to annual minimums of \$150,000 for each of the three types of Exclusive Products as each is added to the agreement. As of February 28, 2016, two products have been added to the agreement. The Company recognized license fees of \$89,000 and zero, respectively, for the three months ended February 28, 2016 and March 1, 2015. The Company recognized license fees of \$315,000 and \$152,000, respectively, for the nine months ended February 28, 2016 and March 1, 2015.

4. Stock-Based Compensation

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

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

	Three Months Ended February 28, 2016	Three Months Ended March 1, 2015	Nine Months Ended February 28, 2016	Nine Months Ended March 1, 2015
Options	\$ 331	\$ 139	\$ 1,021	\$ 394
RSUs	553	252	1,560	745
Total stock-based compensation	\$ 884	\$ 391	\$ 2,581	\$ 1,139

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

	Three Months Ended February 28, 2016	Three Months Ended March 1, 2015	Nine Months Ended February 28, 2016	Nine Months Ended March 1, 2015
Research and development	\$ 59	\$ 8	\$ 179	\$ 28
Sales, general and administrative	825	383	2,402	1,111
Total stock-based compensation	\$ 884	\$ 391	\$ 2,581	\$ 1,139

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

As of February 28, 2016, there was \$6.5 million of total unrecognized compensation expense related to unvested equity compensation awards granted under the Landec incentive stock plans. Total expense is expected to be recognized over the weighted-average period of 2.1 years for stock options and 2.3 years for RSUs.

5. Diluted Net (Loss) Income Per Share

The following table calculates diluted net (loss) income per share (in thousands, except per share amounts):

	Three Months Ended February 28, 2016	Three Months Ended March 1, 2015	Nine Months Ended February 28, 2016	Nine Months Ended March 1, 2015
Numerator:				
Net (loss) income applicable to Common Stockholders	\$(21,190)	\$3,772	\$(16,370)	\$9,348
Denominator:				
Weighted average shares for basic net (loss) income per share	27,054	26,886	27,026	26,863
Effect of dilutive securities:				
Stock options and restricted stock units	—	477	—	451
Weighted average shares for diluted net (loss) income per share	27,054	27,363	27,026	27,314
Diluted net (loss) income per share	\$(0.78)	\$0.14	\$(0.61)	\$0.34

Due to the Company's net loss for the three and nine months ended February 28, 2016, the net loss per share includes only weighted average shares outstanding and thus excludes 1.6 million and 1.5 million, respectively, of outstanding options and RSUs as such impacts would be antidilutive for these periods.

For the three and nine months ended March 1, 2015, the computation of the diluted net income per share excludes the impact of options to purchase 390,657 shares and 349,076 shares of Common Stock, respectively, as such impacts would be antidilutive for these periods.

6. Income Taxes

The income tax benefit for the three and nine months ended February 28, 2016 was \$12.5 million and \$9.8 million, respectively. The effective tax rate for the nine months ended February 28, 2016, 2015 was 37%, compared to 36% for the first nine months ended March 1, 2015. The effective tax rate for the first nine months of fiscal year 2016 was higher than the statutory federal income tax rate of 35% primarily due to state taxes and non-deductible stock-based compensation expense; partially offset by the domestic manufacturing deduction and research and development credits. Included in the effective tax rate for the nine months ended February 28, 2016 is a \$12.5 million discrete tax

benefit for the impairment of the GreenLine trademark.

As of February 28, 2016 and May 31, 2015, the Company had unrecognized tax benefits of approximately \$860,000 and \$1.0 million, respectively. Included in the balance of unrecognized tax benefits as of February 28, 2016 and May 31, 2015 is approximately \$727,000 and \$800,000, respectively, of tax benefits that, if recognized, would result in an adjustment to the Company's effective tax rate. The Company does not expect its unrecognized tax benefits to change significantly within the next twelve months.

The Company has elected to classify interest and penalties related to uncertain tax positions as a component of its provision for income taxes. The Company has accrued an insignificant amount of interest and penalties relating to the income tax on the unrecognized tax benefits as of February 28, 2016 and May 31, 2015.

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

7. Inventories

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

	February 28, 2016	May 31, 2015
Finished goods	\$ 12,764	\$ 13,271
Raw materials	11,306	9,879
Work in progress	3,091	1,877
Total	\$ 27,161	\$ 25,027

8. Debt

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

	February 28, 2016	May 31, 2015
Real property loan agreement with General Electric Capital Corporation (“GE Capital”); due in monthly principal and interest payments of \$133,060 through May 1, 2022 with interest based on a fixed rate of 4.02% per annum	\$ 14,422	\$ 15,172
Capital equipment loan with GE Capital; due in monthly principal and interest payments of \$175,356 through May 1, 2019 with interest based on a fixed rate of 4.39% per annum	6,363	7,705
Capital equipment loan with GE Capital; due in monthly principal and interest payments of \$95,120 through July 17, 2019 with interest based on a fixed rate of 3.68% per annum	5,792	6,476
Capital equipment loan with GE Capital; due in monthly principal and interest payments of \$55,828 through December 1, 2019 with interest based on a fixed rate of 3.74% per annum	3,510	3,907
Capital equipment loan with Bank of America (“BofA”); due in monthly principal and interest payments of \$68,274 through June 28, 2020 with interest based on a fixed rate of 2.79% per annum	3,340	3,819
Real property loan agreement with General Electric Capital Corporation (“GE Capital”); due in monthly payments of \$46,000 through March 1, 2026 with interest payable monthly at LIBOR plus 2.25% per annum	7,686	—
Capital equipment loan with GE Capital; due in monthly payments of \$122,000 through March 1, 2021 with interest payable monthly at LIBOR plus 2.25% per annum	9,089	—
Capital equipment loan with BofA; due in monthly principal and interest payments of \$75,000 through November 27, 2020 with interest based on a fixed rate of 2.92% per annum	4,136	—
Term note with BMO Harris Bank N.A. (“BMO Harris”); due in monthly payments of \$250,000 through May 23, 2016 with interest payable monthly at LIBOR plus 2% per annum	750	3,000
Industrial revenue bonds (“IRBs”) issued by Lifecore; due in annual payments through 2020 with interest at a variable rate set weekly by the bond remarketing agent (0.21% and 0.31% at February 28, 2016 and May 31, 2015, respectively)	2,065	2,440
Total	57,153	42,519
Less current portion	(8,546)	(8,353)
Long-term portion	\$ 48,607	\$ 34,166

On July 17, 2014, Apio entered into an amendment with GE Capital, which amended the revolving line of credit dated April 23, 2012 among the parties. Under the amendment, the revolving line of credit increased from \$25 million to \$40 million, the interest rate was reduced from LIBOR plus 2.0% to LIBOR plus 1.75%, and the term was extended to July 17, 2019, among other changes. The availability under the revolving line of credit is based on the combination of the eligible accounts receivable and eligible inventory (availability was \$26.9 million at February 28, 2016). Apio’s revolving line of credit has an unused fee of 0.375% per annum. At February 28, 2016 and May 31, 2015, there was no outstanding balance under Apio’s revolving line of credit.

Also on July 17, 2014, Apio entered into a new equipment loan with GE Capital whereby Apio could borrow up to \$25 million based on eligible equipment purchases between August 1, 2012 and August 31, 2015. Each borrowing under this new equipment loan has a five year term with a seven year amortization period. On August 28, 2014, Apio borrowed \$7.1 million under the new equipment loan at a fixed rate of 3.68%. On November 24, 2014, Apio borrowed an additional \$4.1 million under the new equipment loan at a fixed rate of 3.74%.

On May 15, 2015, GE Capital and Apio entered into a commitment letter, pursuant to which GE Capital committed to lend Apio up to approximately \$14.7 million in equipment financing and approximately \$7.7 million in real property financing. The equipment loan and the real property loan will be made pursuant to existing loan agreements dated as of April 23, 2012, as amended May 17, 2013 and July 17, 2014. The equipment loan is available to finance purchases of equipment between May 1, 2015 and June 30, 2017. The real property loan will be used to finance the expansion of Apio's facility in Hanover, PA. On February 26, 2016, the Company borrowed \$9.1 million under the equipment loan at a rate of LIBOR plus 2.25% with a term of five years and \$7.7 million under the real property loan also at a rate of LIBOR plus 2.25% with a term of ten years.

The GE real estate, equipment and line of credit agreements (collectively the "GE Debt Agreements") are secured by liens on all of the property of Apio and its subsidiaries. The GE Debt Agreements contain customary events of default under which obligations could be accelerated or increased. The GE Capital real estate and equipment loans are guaranteed by Landec, and Landec has pledged its equity interest in Apio as collateral under the line of credit agreement. The GE Debt Agreements contain customary covenants, such as limitations on the ability to (1) incur indebtedness or grant liens or negative pledges on Apio's assets; (2) make loans or other investments; (3) pay dividends, sell stock or repurchase stock or other securities; (4) sell assets; (5) engage in mergers; (6) enter into sale and leaseback transactions; or (7) make changes in Apio's corporate structure. In addition, Apio must maintain a minimum fixed charge coverage ratio of 1.10 to 1.0 if the availability under its line of credit falls below \$12.0 million. Apio was in compliance with all financial covenants as of February 28, 2016 and May 31, 2015.

Also on May 15, 2015, Apio and BofA entered into a commitment letter and loan agreement, pursuant to which Apio will be permitted to borrow up to \$15.0 million to finance equipment purchases made between October 1, 2014 and April 30, 2016 (the "BofA Loan"). Each borrowing under the BofA Loan will have a five-year term and a fixed interest rate based on the 2.5-year swap rate at the time of borrowing. Borrowings will be secured by equipment financed with proceeds of the BofA Loan. In addition, on May 15, 2015, Landec and BofA entered into a Guaranty, pursuant to which Landec guaranteed Apio's payment obligations under the BofA Loan. On May 29, 2015, Apio borrowed \$3.8 million under this equipment loan at a fixed rate of 2.79%. On November 27, 2015, Apio borrowed \$4.2 million under this equipment loan at a fixed rate of 2.92%.

Unamortized loan origination fees associated with the GE Debt Agreements and BofA Loan were \$709,000 and \$1.2 million at February 28, 2016 and May 31, 2015, respectively, and are included in other assets in the Consolidated Balance Sheets. Amortization of loan origination fees for Apio recorded to interest expense for the three months ended February 28, 2016 and March 1, 2015 were \$48,000 and \$54,000, respectively. Amortization of loan origination fees for Apio recorded to interest expense for the nine months ended February 28, 2016 and March 1, 2015

were \$231,000 and \$151,000, respectively.

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

(1) A \$12.0 million term loan which matures in four years due in monthly payments of \$250,000 with interest payable monthly based on a variable interest rate of LIBOR plus 2% (the “Term Loan”).

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

On May 22, 2015, Lifecore entered into a Credit and Security Agreement (the “Credit Agreement”) with BMO Harris which includes a two-year, \$10.0 million asset-based working capital revolving line of credit, with an interest rate of LIBOR plus 1.85%, with availability based on the combination of Lifecore’s eligible accounts receivable and inventory balances (availability was \$9.3 million at February 28, 2016) and with no unused fee. As of February 28, 2016 no amounts were outstanding under the Credit Agreement.

The obligations of Lifecore under the Lifecore Loan Agreements and Credit Agreement (collectively “Lifecore Debt Agreements”) are secured by liens on all of the property of Lifecore. The Lifecore Debt Agreements contain customary covenants, such as limitations on the ability to (1) incur indebtedness or grant liens or negative pledges on Lifecore’s assets; (2) make loans or other investments; (3) pay dividends or repurchase stock or other securities; (4) sell assets; (5) engage in mergers; (6) enter into sale and leaseback transactions; (7) adopt certain benefit plans; and (8) make changes in Lifecore’s corporate structure. In addition, under the Credit Agreement, Lifecore must maintain (a) a minimum fixed charge coverage ratio of 1.10 to 1.0 if Lifecore’s unrestricted cash balance is less than 50% of total funded debt at the end of each fiscal quarter and (b) a net debt cash flow leverage ratio of less than 2.0 to 1.0 at the end of each fiscal quarter. Lifecore was in compliance with all financial covenants as of February 28, 2016 and May 31, 2015. Unamortized loan origination fees for the Lifecore Debt Agreements were \$12,000 and \$48,000 at February 28, 2016 and May 31, 2015, respectively, and are included in other assets in the Consolidated Balance Sheets.

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

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

9. Capital Lease

On September 3, 2015, Lifecore leased a 65,000 square foot building in Chaska, MN, approximately 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 then mortgage balance on the lessor’s loan secured by the building. The lease is a capital lease. Included in property, plant and equipment as of February 28, 2016 is \$3.8 million associated with this capital lease. The monthly lease payment is 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 initially will use the building for warehousing and final packaging.

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

FY 2016	\$101
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FY 2017	408
FY 2018	418
FY 2019	428
FY 2020	438
FY 2021	449
Thereafter	3,951
Total minimum lease payment	6,193
Less: amounts representing interest	(2,454)
Total	3,739
Less current portion included in other accrued liabilities	(28)
Long-term capital lease obligation	\$ 3,711

10. Related Party

The Company sells products to and earns license fees from Windset. During the three months ended February 28, 2016 and March 1, 2015, the Company recognized revenues of \$109,000 and \$35,000, respectively. During the nine months ended February 28, 2016 and March 1, 2015, the Company recognized revenues of \$376,000 and \$230,000, respectively. These amounts have been included in product sales in the accompanying Consolidated Statements of Comprehensive Income, from the sale of products to and license fees from Windset. The related receivable balances of \$342,000 and \$306,000 are included in accounts receivable in the accompanying Consolidated Balance Sheets as of February 28, 2016 and May 31, 2015, respectively.

Additionally, unrelated to the revenue transactions above, the Company purchases produce from Windset for sale to third parties. During the three months ended February 28, 2016 and March 1, 2015, the Company recognized cost of product sales of zero and \$617,000, respectively. During the nine months ended February 28, 2016 and March 1, 2015, the Company recognized cost of product sales of \$32,000 and \$1.3 million, respectively. These amounts have been included in cost of product sales in the accompanying Consolidated Statements of Comprehensive Income, from the sale of products purchased from Windset. The related accounts payable of zero and \$244,000 are included in accounts payable in the accompanying Consolidated Balance Sheets as of February 28, 2016 and May 31, 2015, respectively.

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

11. Stockholders' Equity

During the three months ended February 28, 2016, the Company granted options to purchase 30,000 shares of common stock and awarded 10,000 restricted stock units. During the nine months ended February 28, 2016, the Company granted options to purchase 126,000 shares of common stock and awarded 92,000 restricted stock units.

As of February 28, 2016 the Company has reserved 2.9 million shares of Common Stock for future issuance under its current and former equity plans.

On July 14, 2010, the Company announced that the Board of Directors of the Company had approved the establishment of a stock repurchase plan authorizing the repurchase of up to \$10 million of the Company's common stock. The Company may repurchase its common stock from time to time in open market purchases or in privately negotiated transactions. The timing and actual number of shares repurchased is at the discretion of management of the Company and will depend on a variety of factors, including stock price, corporate and regulatory requirements, market conditions, the relative attractiveness of other capital deployment opportunities and other corporate priorities. The stock repurchase program does not obligate Landec to acquire any amount of its common stock and the program may be modified, suspended or terminated at any time at the Company's discretion without prior notice. During the three and nine months ended February 28, 2016, the Company did not purchase any shares on the open market.

Consolidated Statements of Changes in Stockholders' Equity (in thousands, except share amounts):

February 28,
2016

Common Stock Shares

Balance at May 31, 2015	26,990,490
Stock options exercised, net of shares tendered	72,673
Vested restricted stock units, net of shares tendered	8,114
Balance at February 28, 2016	27,071,277

Common Stock

Balance at May 31, 2015	\$27
Stock options exercised, net of shares tendered	—
Vested restricted stock units, net of shares tendered	—
Balance at February 28, 2016	\$27

Additional Paid-in Capital

Balance at May 31, 2015	\$133,307
Stock options exercised, net of shares tendered	282
Vested restricted stock units, net of shares tendered	—
Taxes paid by Company for stock swaps and RSUs	—
Stock-based compensation expense	2,581
Tax benefit from stock based compensation expense	133
Balance at February 28, 2016	\$136,303

Retained Earnings

Balance at May 31, 2015	\$85,098
Net loss applicable to common stockholders	(16,370)
Balance at February 28, 2016	\$68,728

Non-controlling Interest

Balance at May 31, 2015	\$1,677
Non-controlling interest in net income	119
Distributions to non-controlling interest	(248)
Balance at February 28, 2016	\$1,548

12. Business Segment Reporting

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

The Packaged Fresh Vegetables segment markets and packs specialty packaged whole and fresh-cut vegetables, the majority of which incorporate the BreatheWay specialty packaging for retail grocery, club store and food services industries. In addition, the Packaged Fresh Vegetables segment sells BreatheWay packaging to partners for non-vegetable products. The Food Export segment consists of revenues generated from the purchase and sale of primarily whole commodity fruit and vegetable products to Asia and domestically. The Biomaterials segment sells products utilizing hyaluronan, a naturally occurring polysaccharide that is widely distributed in the extracellular matrix of connective tissues in both animals and humans, and non-HA products for medical use primarily in the Ophthalmic, Orthopedic and Veterinary/Other markets. Corporate licenses Landec's patented Intellicoat® seed coatings to the farming industry and licenses the Company's Intelimer polymers for personal care products and other industrial products. The Corporate segment also includes general and administrative expenses, non-Packaged Fresh Vegetables and non-Biomaterials interest income and income tax expenses. All of the assets of the Company are located within the United States of America.

The Company's international sales were as follows (in millions):

	Three Months		Nine Months	
	Ended		Ended	
	February	March	February	March
	28,	1,	28,	1,
	2016	2015	2016	2015
Canada	\$20.3	\$21.6	\$60.6	\$56.7
Taiwan	\$1.2	\$2.2	\$26.6	\$27.8
China	\$0.3	\$0.4	\$7.6	\$7.6
Indonesia	\$2.4	\$1.6	\$6.3	\$8.2
Japan	\$1.0	\$1.1	\$4.6	\$6.3
Philippines	\$0.5	\$1.0	\$2.1	\$3.8
Belgium	\$6.2	\$5.7	\$7.3	\$5.8
All Other Countries	\$3.4	\$4.3	\$10.5	\$9.7

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

	Packaged Fresh Vegetables	Food Export	Biomaterials	Corporate	TOTAL
<u>Three Months Ended Feb. 28, 2016</u>					
Net sales	\$ 107,348	\$ 6,389	\$ 15,701	\$ 552	\$ 129,990
International sales	\$ 20,343	\$ 6,389	\$ 8,576	\$ —	\$ 35,308
Gross profit	\$ 4,334	\$ 521	\$ 7,618	\$ 458	\$ 12,931
Net income (loss)	\$ (36,963)	\$ (27)	\$ 3,450	\$ 12,350	\$ (21,190)
Depreciation and amortization	\$ 1,455	\$ —	\$ 656	\$ 36	\$ 2,147
Dividend income	\$ 413	\$ —	\$ —	\$ —	\$ 413
Interest income	\$ 17	\$ —	\$ —	\$ —	\$ 17
Interest expense	\$ (427)	\$ —	\$ (57)	\$ —	\$ (484)
Income tax benefit (expense)	\$ 905	\$ 189	\$ (973)	\$ 12,389	\$ 12,510
<u>Three Months Ended March 1, 2015</u>					
Net sales	\$ 115,392	\$ 8,199	\$ 14,799	\$ 140	\$ 138,530
International sales	\$ 21,423	\$ 8,086	\$ 8,394	\$ —	\$ 37,903
Gross profit	\$ 9,735	\$ 771	\$ 6,258	\$ 121	\$ 16,885
Net income (loss)	\$ 2,949	\$ (6)	\$ 3,047	\$ (2,218)	\$ 3,772
Depreciation and amortization	\$ 1,232	\$ 1	\$ 568	\$ 33	\$ 1,834
Dividend income	\$ 413	\$ —	\$ —	\$ —	\$ 413
Interest income	\$ 5	\$ —	\$ 73	\$ 7	\$ 85
Interest expense	\$ (467)	\$ —	\$ (43)	\$ —	\$ (510)
Income tax expense	\$ (323)	\$ —	\$ (496)	\$ (1,505)	\$ (2,324)
<u>Nine Months Ended Feb. 28, 2016</u>					
Net sales	\$ 318,218	\$ 50,873	\$ 34,748	\$ 1,947	\$ 405,786
International sales	\$ 60,948	\$ 50,873	\$ 13,735	\$ —	\$ 125,556
Gross profit	\$ 27,565	\$ 3,200	\$ 15,713	\$ 1,695	\$ 48,173
Net income (loss)	\$ (34,361)	\$ 1,250	\$ 4,911	\$ 11,830	\$ (16,370)
Depreciation and amortization	\$ 4,470	\$ 1	\$ 1,902	\$ 113	\$ 6,486
Dividend income	\$ 1,238	\$ —	\$ —	\$ —	\$ 1,238
Interest income	\$ 39	\$ —	\$ —	\$ —	\$ 39