

LANDEC CORP \CA\  
Form 10-Q  
January 04, 2008

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

**FORM 10-Q**

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

**For the Fiscal Quarter Ended November 25, 2007, or**

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

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: **0-27446**

**LANDEC CORPORATION**

(Exact name of registrant as specified in its charter)

**California**  
(State or other jurisdiction of  
incorporation or organization)

**94-3025618**  
(IRS Employer  
Identification Number)

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

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

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

Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non Accelerated Filer

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 December 21, 2007, there were 26,090,434 shares of Common Stock outstanding.



**LANDEC CORPORATION**

FORM 10-Q For the Fiscal Quarter Ended November 25, 2007

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****LANDEC CORPORATION  
CONSOLIDATED BALANCE SHEETS****(In thousands)**November 25,  
2007May 27,  
2007**(Unaudited)****ASSETS**

## Current Assets:

Cash and cash equivalents	\$	45,130	\$	62,556
Accounts receivable, less allowance for doubtful accounts of \$209 and \$206 at November 25, 2007 and May 27, 2007		17,656		17,631
Accounts receivable, related party		410		554
Inventories, net		8,420		6,800
Notes and advances receivable		1,575		282
Prepaid expenses and other current assets		1,126		1,316
<b>Total Current Assets</b>		<b>74,317</b>		<b>89,139</b>

Property, plant and equipment, net		20,259		20,270
Goodwill, net		22,535		21,402
Trademarks, net		8,228		8,228
Notes receivable		—		96
Other assets		2,639		2,233
<b>Total Assets</b>	\$	<b>127,978</b>	\$	<b>141,368</b>

## Current Liabilities:

Accounts payable	\$	14,088	\$	13,705
Related party accounts payable		60		175
Income taxes payable		537		458
Accrued compensation		1,629		3,126
Other accrued liabilities		1,593		1,340
Related party note payable		82		—
Deferred revenue		2,138		3,491
<b>Total Current Liabilities</b>		<b>20,127</b>		<b>22,295</b>

Related party note payable		76		—
Deferred revenue		6,000		7,000
Minority interest		1,302		1,845
<b>Total Liabilities</b>		<b>27,505</b>		<b>31,140</b>

## Shareholders' Equity:

Common stock and additional paid in capital, \$0.001 par value; 50,000,000 shares authorized; 26,086,434 and 25,891,168 shares issued and outstanding at November 25, 2007 and May 27, 2007, respectively		130,846		129,560
Accumulated deficit		(30,373)		(19,332)
<b>Total Shareholders' Equity</b>		<b>100,473</b>		<b>110,228</b>

Total Liabilities and Shareholders' Equity	\$	127,978	\$	141,368
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*See accompanying notes.*

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

	Three Months Ended		Six Months Ended	
	November 25, 2007	November 26, 2006	November 25, 2007	November 26, 2006
<b>Revenues:</b>				
Product sales	\$ 56,274	\$ 53,584	\$ 116,075	\$ 103,631
Services revenue, related party	909	831	1,983	1,674
License fees	1,550	681	3,131	881
Research, development and royalty revenues	228	27	399	35
Royalty revenues, related party	—	71	32	121
<b>Total revenues</b>	<b>58,961</b>	<b>55,194</b>	<b>121,620</b>	<b>106,342</b>
<b>Cost of revenue:</b>				
Cost of product sales	48,777	45,557	100,369	88,845
Cost of product sales, related party	571	673	1,782	2,222
Cost of services revenue	756	688	1,638	1,442
<b>Total cost of revenue</b>	<b>50,104</b>	<b>46,918</b>	<b>103,789</b>	<b>92,509</b>
<b>Gross profit</b>	<b>8,857</b>	<b>8,276</b>	<b>17,831</b>	<b>13,833</b>
<b>Operating costs and expenses:</b>				
Research and development	788	840	1,610	1,624
Selling, general and administrative	4,239	7,289	8,785	12,191
<b>Total operating costs and expenses</b>	<b>5,027</b>	<b>8,129</b>	<b>10,395</b>	<b>13,815</b>
<b>Operating income</b>	<b>3,830</b>	<b>147</b>	<b>7,436</b>	<b>18</b>
Interest income	607	177	1,388	413
Interest expense	(5)	(121)	(13)	(191)
Minority interest expense	(109)	(97)	(229)	(115)
Other income (expense)	—	2	—	(3)
<b>Net income before taxes</b>	<b>4,323</b>	<b>108</b>	<b>8,582</b>	<b>122</b>
<b>Income tax expense</b>	<b>(1,198)</b>	<b>—</b>	<b>(2,380)</b>	<b>—</b>
<b>Net Income</b>	<b>\$ 3,125</b>	<b>\$ 108</b>	<b>\$ 6,202</b>	<b>\$ 122</b>
<b>Basic net income per share</b>	<b>\$ 0.12</b>	<b>\$ 0.00</b>	<b>\$ 0.24</b>	<b>\$ 0.00</b>
<b>Diluted net income (loss) per share</b> (Note 6)	<b>\$ 0.12</b>	<b>\$ (0.00)</b>	<b>\$ 0.23</b>	<b>\$ (0.01)</b>
<b>Shares used in per share computation:</b>				
Basic	26,070	25,039	26,004	24,988
Diluted	27,020	25,039	26,970	24,988

*See accompanying notes.*





**LANDEC CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(In thousands)

	Six Months Ended	
	November 25, 2007	November 26, 2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,202	\$ 122
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,469	1,766
Income tax expense not payable	2,229	—
Stock-based compensation expense	505	382
Loss on sale of property and equipment	—	29
Minority interest	233	123
Investment in unconsolidated business	—	(481)
Changes in current assets and current liabilities:		
Accounts receivable, net	(25)	(532)
Accounts receivable, related party	144	—
Inventories, net	(1,620)	(9,553)
Issuance of notes and advances receivable	(1,592)	(1,427)
Collection of notes and advances receivable	288	221
Prepaid expenses and other current assets	190	1
Accounts payable	383	1,920
Related party accounts payable	(115)	(465)
Income taxes payable	79	—
Accrued compensation	(1,497)	(1,123)
Other accrued liabilities	253	(1)
Deferred revenue	(2,353)	2,248
Net cash provided by (used in) operating activities	4,773	(6,770)
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(1,458)	(4,651)
Acquisition of business and earnout payments	(29)	(1,050)
Issuance of notes and advances receivable	(9)	(27)
Collection of notes and advances receivable	116	161
Net cash used in investing activities	(1,380)	(5,567)
<b>Cash flows from financing activities:</b>		
Proceeds from sale of common stock	781	1,017
Proceeds from the exercise of subsidiary options	—	10
Repurchase of subsidiary common stock and options (Note 8)	(20,837)	—
(Increase) decrease in other assets	(406)	67
Borrowings on lines of credit	—	4,941
Payment on related party note payable (Note 11)	(74)	—
Payments on long term debt	—	(1,979)
Distributions to minority interest	(283)	(302)
Net cash (used in) provided by financing activities	(20,819)	3,754
Net decrease in cash and cash equivalents	(17,426)	(8,583)
Cash and cash equivalents at beginning of period	62,556	20,519

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Cash and cash equivalents at end of period	\$	45,130	\$	11,936
<b>Supplemental schedule of noncash operating activities:</b>				
Preferred stock received from investment in unconsolidated business	\$	—	\$	481

*See accompanying notes.*

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**LANDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Basis of Presentation**

Landec Corporation and its subsidiaries ("Landec" or the "Company") design, develop, manufacture, and sell temperature-activated and other specialty polymer products for a variety of food products, agricultural products, and licensed partner applications. The Company develops Intellicoat® coated seed products through its Landec Ag, Inc. ("Landec Ag") subsidiary and specialty packaged fresh-cut vegetables and whole produce to retailers and club stores, primarily in the United States and Asia, through its Apio, Inc. ("Apio") subsidiary.

The accompanying unaudited consolidated financial statements of Landec have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made which are necessary to present fairly the financial position of the Company at November 25, 2007 and the results of operations and cash flows for all periods presented. Although Landec believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted per the rules and regulations of the Securities and Exchange Commission. The accompanying financial data should be reviewed in conjunction with the audited financial statements and accompanying notes included in Landec's Annual Report on Form 10-K for the fiscal year ended May 27, 2007.

The results of operations for the three and six months ended November 25, 2007 are not necessarily indicative of the results that may be expected for an entire fiscal year due to some seasonality in Apio's food business.

**Use of Estimates**

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

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

**Investments**

Equity investments in non-public companies with no readily available market value are carried on the balance sheet at cost as adjusted for impairment losses, if any. If reductions in the market value of the investments to an amount that is below cost are deemed by management to be other than temporary, the reduction in market value will be realized, with the resulting loss in market value reflected on the income statement.

**Recent Accounting Pronouncements**

*Fair Value Measurements*

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”, including an Amendment of FASB Statement No. 115. SFAS No. 159 (“SFAS No. 159”) provides the option to measure, at fair value, eligible financial instrument items using fair value, which are not otherwise required to be measured at fair value. The irrevocable decision to measure items at fair value is made at specified election dates on an instrument-by-instrument basis. Changes in that instrument's fair value must be recognized in current earnings in subsequent reporting periods. If elected, the first measurement to fair value is reported as a cumulative-effect adjustment to the opening balance of retained earning in the year of adoption. The Company is currently evaluating the impact of the adoption of SFAS No. 159 on its consolidated financial statements, if it elects to measure eligible financial instruments at fair value. The standard is effective for the Company beginning in its fiscal year 2009.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 157 to have a material impact on its consolidated financial statements.

## **Reclassifications**

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

## **2. License Agreement with Chiquita Brands International, Inc.**

On September 19, 2007, the Company amended its licensing and supply agreement with Chiquita Brands International, Inc. ("Chiquita"). Under the terms of the amendment, the license for bananas has been expanded to include additional exclusive fields using Landec's BreatheWay packaging technology, and a new exclusive license has been added for the sale and marketing of avocados using Landec's BreatheWay packaging technology. In exchange for expanding the exclusive fields for bananas and adding a new exclusive field for avocados, the minimum gross profits to be received by Landec from the sale of BreatheWay packaging to Chiquita for bananas and avocados will increase to \$2.9 million in fiscal year 2008 of which virtually all will be recognized during the second half of fiscal year 2008 and to \$2.2 million in fiscal year 2009. In addition, the minimum gross profits to be received are calculated and due on a calendar quarter basis per the terms of the amended agreement. Accordingly, the minimum amounts under the amended agreement will be calculated each calendar quarter and thus will be due at the end of March, June, September and December of each year.

## **3. License Agreement with Monsanto Company**

On December 1, 2006, Landec sold its direct marketing and sales seed company, Fielder's Choice Direct ("FCD"), which included the Fielder's Choice Direct® and Heartland Hybrid® brands, to American Seeds, Inc., a wholly owned subsidiary of Monsanto Company ("Monsanto"). The acquisition price for FCD was \$50 million in cash paid at the close. During fiscal year 2007, Landec recorded income from the sale, net of direct expenses and bonuses, of \$22.7 million. The income that was recorded is equal to the difference between the fair value of FCD of \$40 million and its net book value, less direct selling expenses and bonuses. In accordance with generally accepted accounting principles, the portion of the \$50 million of proceeds in excess of the fair value of FCD, or \$10 million, will be allocated to the technology license agreement described below and will be recognized as revenue ratably over the five year term of the technology license agreement or \$2 million per year beginning December 1, 2006. The fair value was determined by management with the assistance of an independent appraiser.

On December 1, 2006, Landec also entered into a five-year co-exclusive technology license and polymer supply agreement (the "Agreement") with Monsanto for the use of Landec's Intellicoat polymer seed coating technology. Under the terms of the Agreement, Monsanto will pay Landec \$2.6 million per year in exchange for (1) a co-exclusive right to use Landec's Intellicoat temperature activated seed coating technology worldwide during the license period, (2) the right to be the exclusive global sales and marketing agent for the Intellicoat seed coating technology, and (3) the right to purchase the technology any time during the five year term of the Agreement. Monsanto will also fund all operating costs, including all Intellicoat research and development, product development and non-replacement capital costs during the five year agreement period. For the three and six months ended November 25, 2007, Landec recognized \$1.35 million and \$2.7 million, respectively, in revenues and income from the Agreement.



The Agreement also provides for a fee payable to Landec of \$4 million if Monsanto elects to terminate the Agreement or \$8 million if Monsanto elects to purchase the technology. If the purchase option is exercised before the fifth anniversary of the Agreement, or if Monsanto elects to terminate the Agreement, all annual license fees and supply payments that have not been paid to Landec will become due upon the purchase or early termination. If Monsanto does not exercise its purchase option by the fifth anniversary of the Agreement, Landec will receive the termination fee and all rights to the Intellicoat seed coating technology will revert to Landec. Accordingly, Landec will receive minimum guaranteed payments of \$17 million, or \$3.4 million per year, for license fees and polymer supply payments over five years or \$21 million in maximum payments if Monsanto elects to purchase the licensed technology. If Monsanto elects to purchase the technology, an additional \$4 million of license fee revenue will be recognized at the time of purchase. If Monsanto exercises its purchase option, Landec and Monsanto will enter into a new long-term supply agreement in which Landec will continue to be the exclusive supplier of Intellicoat polymer materials to Monsanto.

Prior to the sale of FCD, Landec Ag revenues for the three and six months ended November 26, 2006 were \$17,000 and \$131,000, respectively and operating losses for the three and six months ended November 26, 2006, were \$3.1 million and \$5.5 million, respectively.

#### 4. Stock-Based Compensation

The Company adopted SFAS 123R using the modified prospective transition method, which requires the application of the accounting standard to (i) all stock-based awards issued on or after May 29, 2006 and (ii) any outstanding stock-based awards that were issued but not vested as of May 29, 2006. In the three and six months ended November 25, 2007, the Company recognized stock-based compensation expense of \$181,000 and \$505,000 or \$0.01 and \$0.02 per basic and diluted share, respectively, which included \$80,000 and \$143,000 for restricted stock unit awards and \$101,000 and \$362,000 for stock option grants, respectively. In the three and six months ended November 26, 2006, the Company recognized stock-based compensation expense of \$136,000 and \$382,000 or \$0.01 and \$0.02 per basic and diluted share, respectively, which included \$42,000 and \$75,000 for restricted stock unit awards and \$94,000 and \$307,000 for stock option grants, respectively.

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

	<b>Three Months Ended November 25, 2007</b>	<b>Three Months Ended November 26, 2006</b>	<b>Six Months Ended November 25, 2007</b>	<b>Six Months Ended November 26, 2006</b>
Research and development	\$ 39,000	\$ 23,000	\$ 70,000	\$ 42,000
Selling, general and administrative	\$ 142,000	\$ 113,000	\$ 435,000	\$ 340,000
Total amort. of stock-based compensation	\$ 181,000	\$ 136,000	\$ 505,000	\$ 382,000

As of November 25, 2007, there was \$1.2 million of total unrecognized compensation expense related to unvested equity compensation awards granted under the Company's incentive stock plans. Total expense is expected to be recognized over the weighted-average period of 1.49 years.

During the six months ended November 25, 2007, the Company granted options to purchase 104,500 shares of common stock and 34,835 restricted stock unit awards.

As of November 25, 2007 the Company has reserved 2.6 million shares of common stock for future issuance under its current and former stock plans.

**5. Income Taxes**

The estimated annual effective tax rate for fiscal 2008 is expected to be approximately 28%. The primary difference between the estimated annual effective tax rate of 28% and the federal statutory tax rate relates to the projected utilization of net operating loss and credit carryforwards. The provision for income taxes for the three and six months ended November 25, 2007 was approximately \$1.2 million and \$2.4 million, respectively.

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In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). This interpretation 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. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company adopted FIN 48 effective May 28, 2007. As a result of the implementation of FIN 48, the Company did not recognize a cumulative adjustment to the May 28, 2007 balance of retained earnings as the amount was deemed immaterial.

As of May 28, 2007, the Company had unrecognized tax benefits of approximately \$277,000. Included in the balance of unrecognized tax benefits as of May 28, 2007 is approximately \$259,000 of tax benefits that, if recognized, would result in an adjustment to the Company's effective tax rate.

In accordance with FIN 48, paragraph 19, the Company has decided to classify interest and penalties related to uncertain tax positions as a component of its provision for income taxes. Due to the Company's historical taxable loss position, the Company did not accrue interest and penalties relating to the income tax on the unrecognized tax benefits as of May 27, 2007 and November 25, 2007 as the amounts were immaterial. Accordingly, the amount of interest and penalties included as a component of provision for income taxes in the three and six months ended November 25, 2007 is immaterial.

Due to tax attribute carryforwards, the Company is subject to examination for tax years 1991 forward for U.S. tax purposes. The Company was also subject to examination in various state jurisdictions for tax years 1996 forward, none of which were individually material. The Company does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

## 6. Net Income Per Diluted Share

The following table sets forth the computation of diluted net income for the periods with minority interest income of subsidiaries (see Note 8) (in thousands, except per share amounts):

	Three Months Ended November 25, 2007	Three Months Ended November 26, 2006	Six Months Ended November 25, 2007	Six Months Ended November 26, 2006
<b>Numerator:</b>				
Net income	\$ 3,125	\$ 108	\$ 6,202	\$ 122
Less: Minority interest in income of subsidiary	—	(228)	(89)	(341)
Net income for diluted net income per share	\$ 3,125	\$ (120)	\$ 6,113	\$ (219)
<b>Denominator:</b>				
Weighted average shares for basic net income per share	26,070	25,039	26,004	24,988
Effect of dilutive securities:				
Stock Options	950	—	966	—
	27,020	25,039	26,970	24,988

Weighted average shares for diluted net  
income per share

Diluted net income per share	\$	0.12	\$	(0.00)	\$	0.23	\$	(0.01)

For the three months ended November 25, 2007 and November 26, 2006, the computation of the diluted net income (loss) per share excludes the impact of options to purchase 74,500 shares and 1,446,608 shares of Common Stock, respectively, as such impacts would be antidilutive for these periods.

For the six months ended November 25, 2007 and November 26, 2006, the computation of the diluted net loss per share excludes the impact of options to purchase 86,701 shares and 1,412,325 shares of Common Stock, respectively, as such impacts would be antidilutive for these periods.

## 7. Debt

On September 1, 2007, Apio amended its revolving line of credit with Wells Fargo Bank N.A. extending the term of the line to August 31, 2009. In addition, the interest rate on the revolving line of credit was reduced to either prime less 0.50% or the LIBOR adjusted rate plus 1.50%. The revolving line of credit with Wells Fargo contains certain restrictive covenants, which require Apio to meet certain financial tests, including minimum levels of net income, maximum leverage ratio, minimum net worth and maximum capital expenditures. Landec has pledged substantially all of the assets of Apio to secure the line of credit with Wells Fargo. At November 25, 2007, no amounts were outstanding under the revolving line of credit. Apio has been in compliance or received waivers for all loan covenants since the inception of this line.

## 8. Repurchase of Subsidiary Common Stock and Options

On August 7, 2007, Landec repurchased all of the outstanding common stock and options of Apio not owned by Landec at the fair market value of each share as if all options had been exercised on that date. The fair market value repurchase price for all of Apio's common stock and options not owned by Landec was \$20.8 million. After the repurchase, Apio became a wholly owned subsidiary of Landec. In accordance with SFAS 123R, this repurchase did not result in additional compensation expense to the Company as all of the common stock and options repurchased were fully vested at the time of the repurchase and the consideration paid was equal to the fair value.

## 9. Goodwill and Other Intangibles

The Company is required under SFAS 142 to review goodwill and indefinite lived intangible assets at least annually. The Company completed its annual impairment review on July 1, 2007. The review is performed by grouping the net book value of all long-lived assets for reporting entities, including goodwill and other intangible assets, and comparing this value to the related estimated fair value. The determination of fair value is based on estimated future discounted cash flows related to these long-lived assets. The discount rate used was based on the risks associated with the reporting entities. The determination of fair value was performed by management. The review concluded that the fair value of the reporting entities exceeded the carrying value of their net assets. As of November 25, 2007, no impairment charge was warranted. As a result of the repurchase of Apio's outstanding common stock (see Note 8), goodwill increased \$1.1 million during the first six months of fiscal year 2008.

## 10. Inventories

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

	November	
	25, 2007	May 27, 2007
Finished goods	\$ 2,442	\$ 2,273
Raw material	5,978	4,527
Total	\$ 8,420	\$ 6,800

## 11. Related Party

Apio provides cooling and distributing services for farms in which the Chief Executive Officer of Apio (the “Apio CEO”) has a financial interest and purchases produce from those farms. Apio also purchases produce from Beachside Produce LLC for sale to third parties. Beachside Produce is owned by a group of entities and persons that supply produce to Apio. One of the owners of Beachside Produce is the Apio CEO. Revenues and the resulting accounts receivable and cost of product sales and the resulting accounts payable are classified as related party in the accompanying financial statements as of November 25, 2007 and May 27, 2007 and for the three and six months ended November 25, 2007 and November 26, 2006.

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Apio leases, for approximately \$300,000 on an annual basis, agricultural land that is owned by the Apio CEO. Apio, in turn, subleases that land at cost to growers who are obligated to deliver product from that land to Apio for value added products. There is generally no net statement of operations impact to Apio as a result of these leasing activities but Apio creates a guaranteed source of supply for the value added business. Apio has loss exposure on the leasing activity to the extent that it is unable to sublease the land. For the three and six months ended November 25, 2007 the Company subleased all of the land leased from the Apio CEO and received sublease income of \$77,000 and \$189,000, respectively, which is equal to the amount the Company paid to lease that land for the period.

Apio's domestic commodity vegetable business was sold to Beachside Produce, effective June 30, 2003. The Apio CEO is a 12.5% owner in Beachside Produce. During the three and six months ended November 25, 2007, the Company recognized revenues of \$468,000 and \$838,000, respectively, from the sale of products to Beachside Produce. For the six months ended November 25, 2007, the Company recognized royalty revenue of \$32,000 from the use by Beachside Produce of Apio's trademarks. The related accounts receivable from Beachside Produce are classified as related party in the accompanying financial statements as of November 25, 2007 and May 27, 2007.

At May 27, 2007, the Apio CEO held a 6% ownership interest in Apio Cooling LP ("Apio Cooling"), a limited partnership in which Apio is the general partner and majority owner with a 60% ownership interest. During the first quarter of fiscal year 2008, the Apio CEO withdrew from Apio Cooling. In accordance with the partnership agreement, the Apio CEO's minority interest will be paid in three annual installments with the first payment made in the second quarter of fiscal year 2008. The amounts due are classified as a related party note payable as of November 25, 2007 in the accompanying financial statements. As of May 27, 2007, the \$227,000 owed to the Apio CEO was included in the minority interest liability as the Apio CEO did not withdraw from Apio Cooling until the first quarter of fiscal year 2008.

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

## **12. Comprehensive Income (Loss)**

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

## **13. Shareholders' Equity**

During the three and six months ended November 25, 2007, 39,572 and 195,266 shares of Common Stock, respectively, were issued upon the vesting of RSUs and upon the exercise of options under the Company's stock option plans.

## **14. Business Segment Reporting**

Landec operates in two business segments: the Food Products Technology segment and the Technology Licensing segment. The Food Products Technology segment markets and packs specialty packaged whole and fresh-cut vegetables that incorporate the BreatheWay® specialty packaging for the retail grocery, club store and food services industry. In addition, the Food Products Technology segment sells BreatheWay packaging to partners for non-vegetable products. The Technology Licensing segment consists of licensing agreements for seed coatings using Landec's patented Intellicoat seed coatings to the farming industry and for the use of the Company's Intelimer® polymers for personal care products and other industrial products. Corporate includes corporate general and administrative expenses, non Food Products Technology interest income and Company-wide income tax expenses. All of the assets of the Company are located within the United States of America. Prior to fiscal year 2008, Landec's operating segments were Food Products Technology, which has not changed, and Agricultural Seed Technology. As a result of the sale of FCD to Monsanto (see Note 3), the Company has eliminated the Agricultural Seed Technology

segment and has established the Technology Licensing segment. As a result, the segment information for the three and six months ended November 26, 2006 has been reclassified to conform with the current year classification. Included in the Technology Licensing segment for the three and six months ended November 26, 2006 are the results of Landec Ag which includes FCD. In addition, the licensing activity for non food and Ag collaborations is included in the Technology Licensing segment whereas in periods prior to fiscal year 2008 it was included in Corporate.

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## Operations by Business Segment (in thousands):

Three months ended November 25, 2007	Food Products Technology	Technology Licensing	Corporate	TOTAL
Net revenues	\$ 57,296	\$ 1,665	\$ —	\$ 58,961
International sales	\$ 17,281	\$ ¾	\$ ¾	\$ 17,281
Gross profit	\$ 7,192	\$ 1,665	\$ —	\$ 8,857
Net income (loss)	\$ 3,540	\$ 1,163	\$ (1,578)	\$ 3,125
Interest expense	\$ 5	\$ —	\$ ¾	\$ 5
Interest income	\$ 89	\$ —	\$ 518	\$ 607
Depreciation and amortization	\$ 695	\$ 58	\$ —	\$ 753
Income tax expense	\$ —	\$ —	\$ 1,198	\$ 1,198
Three months ended November 26, 2006				
Net revenues	\$ 54,469	\$ 725	\$ —	\$ 55,194
International sales	\$ 17,964	\$ ¾	\$ ¾	\$ 17,964
Gross profit	\$ 7,641	\$ 635	\$ —	\$ 8,276
Net income (loss)	\$ 4,027	\$ (2,792)	\$ (1,127)	\$ 108
Interest expense	\$ 4	\$ 117	\$ ¾	\$ 121
Interest income	\$ 153	\$ —	\$ 24	\$ 177
Depreciation and amortization	\$ 660	\$ 219	\$ —	\$ 879
Income tax expense	\$ —	\$ —	\$ —	\$ —
Six months ended November 25, 2007				
Net revenues	\$ 118,294	\$ 3,326	\$ —	\$ 121,620
International sales	\$ 36,531	\$ ¾	\$ ¾	\$ 36,531
Gross profit	\$ 14,505	\$ 3,326	\$ —	\$ 17,831
Net income (loss)	\$ 7,216	\$ 2,372	\$ (3,386)	\$ 6,202
Interest expense	\$ 13	\$ —	\$ ¾	\$ 13
Interest income	\$ 312	\$ —	\$ 1,076	\$ 1,388
Depreciation and amortization	\$ 1,354	\$ 115	\$ —	\$ 1,469
Income tax expense	\$ —	\$ —	\$ 2,380	\$ 2,380
Six months ended November 26, 2006				
Net revenues	\$ 105,295	\$ 1,047	\$ —	\$ 106,342
International sales	\$ 31,774	\$ ¾	\$ ¾	\$ 31,774
Gross profit	\$ 12,995	\$ 838	\$ —	\$ 13,833
Net income (loss)	\$ 6,453	\$ (5,459)	\$ (872)	\$ 122
Interest expense	\$ 74	\$ 117	\$ ¾	\$ 191
Interest income	\$ 345	\$ —	\$ 68	\$ 413
Depreciation and amortization	\$ 1,332	\$ 434	\$ —	\$ 1,766
Income tax expense	\$ —	\$ —	\$ —	\$ —

During the six months ended November 25, 2007 and November 26, 2006, sales to the Company's top five customers accounted for approximately 47% and 50%, respectively, of revenues, with the Company's top customer from the Food Products Technology segment, Costco Wholesale Corp., accounting for approximately 19% and 20%, respectively, of revenues. The Company expects that, for the foreseeable future, a limited number of customers may continue to account for a significant portion of its net revenues. Virtually all of the Company's international sales are to Asia.





## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with the unaudited consolidated financial statements and accompanying notes included in Part I--Item 1 of this Form 10-Q and the audited consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Landec's Annual Report on Form 10-K for the fiscal year ended May 27, 2007.

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 below under "Additional Factors That May Affect Future Results," and those mentioned in Landec's Annual Report on Form 10-K for the fiscal year ended May 27, 2007. Landec undertakes no obligation to update or revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report.

### **Critical Accounting Policies and Use of Estimates**

There have been no material changes to the Company's critical accounting policies which are included and described in the Form 10-K for the fiscal year ended May 27, 2007 filed with the Securities and Exchange Commission on July 27, 2007.

### **The Company**

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

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

Subsequent to the sale of Landec's former direct marketing and sales seed corn company, Fielder's Choice Direct ("FCD"), to Monsanto in fiscal year 2007, Landec now has two core businesses - Food Products Technology and Technology Licensing (see note 14).

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

Our Technology Licensing business includes our proprietary Intellicoat seed coating technology which we have licensed to Monsanto and our Intelimer polymer business that licenses and/or supplies products outside of our Food

Products Technology business to companies such as Air Products and Chemicals, Inc. (“Air Products”) and Nitta Corporation (“Nitta”).

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Landec was incorporated in California on October 31, 1986. We completed our initial public offering in 1996 and our Common Stock is listed on The NASDAQ Global Select Market under the symbol "LNDC." Our principal executive offices are located at 3603 Haven Avenue, Menlo Park, California 94025 and our telephone number is (650) 306-1650.

### **Description of Core Business**

Landec participates in two core business segments- Food Products Technology and Technology Licensing.

#### ***Food Products Technology Business***

The Company began marketing in early 1996 our proprietary Intelimer-based specialty packaging for use in the fresh-cut produce market, one of the fastest growing segments in the produce industry. Our proprietary BreatheWay packaging technology, when combined with produce that is processed by washing, and in some cases cut and mixed, results in packaged produce with increased shelf life, reduced shrink (waste) and without the need for ice during the distribution cycle, which we refer to as our "value-added" products. In 1999, we acquired Apio, our largest customer at that time in the Food Products Technology business and one of the nation's leading marketers and packers of produce and specialty packaged fresh-cut vegetables. Apio provides year-round access to produce, utilizes state-of-the-art fresh-cut produce processing technology and distributes products to the top U.S. retail grocery chains, major club stores and to the foodservice industry. The vertical integration of Landec's BreatheWay technology and Apio's packaging and sales capabilities within the Food Products Technology business gives Landec direct access to the large and growing fresh-cut produce market. The value-added business markets a variety of fresh-cut and whole vegetables to the top retail grocery chains and club stores. During the fiscal year ended May 27, 2007, Apio shipped more than seventeen million cartons of produce to leading supermarket retailers, wholesalers, foodservice suppliers and club stores throughout the United States and internationally, primarily in Asia.

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

- **Value-Added Supplier:** Apio has structured its business as a marketer and seller of fresh-cut and whole value-added produce. It is focused on selling products under its Eat Smart® brand and other brands for its fresh-cut and whole value-added products. As retail grocery and club store chains consolidate, Apio is well positioned as a single source of a broad range of products.
- **Reduced Farming Risks:** Apio reduces its farming risk by not taking ownership of farmland, and instead, contracts with growers for produce. The year-round sourcing of produce is a key component to the fresh-cut and whole value-added processing business.
- **Lower Cost Structure:** Apio has strategically invested in the rapidly growing fresh-cut and whole value-added business. Apio's 96,000 square foot value-added processing plant, which was expanded in fiscal year 2007 from 60,000 square feet, is automated with state-of-the-art vegetable processing equipment. Virtually all of Apio's value-added products utilize Apio's proprietary BreatheWay packaging technology. Apio's strategy is to operate one large central processing facility in one of California's largest, lowest cost growing regions (Santa Maria Valley) and use packaging technology to allow for the nationwide delivery of fresh produce products.

**Export Capability:** Apio is uniquely positioned to benefit from the growth in export sales to Asia and Europe over the next decade with its export business, CalEx. Through CalEx, Apio is currently one of the largest U.S. exporters of broccoli to Asia and is selling its iceless products to Asia using proprietary BreatheWay packaging technology.

**Expanded Product Line Using Technology:** Apio, through the use of its BreatheWay packaging technology, is introducing on average fifteen new value-added products each year. These new product offerings range from various sizes of fresh-cut bagged products, to vegetable trays, to whole produce, to vegetable salads and snack packs. During the last twelve months, Apio has introduced 11 new products.

Apio established its Apio Packaging division (formerly know as Apio Tech) in 2005 to advance the sales of BreatheWay packaging technology for shelf-life sensitive vegetables and fruit. The technology also includes unique packaging solutions for produce in large packages including shipping and pallet-sized containers.

Apio Packaging's first program has been concentrated on bananas which was formally consummated when Apio entered into an agreement with Chiquita whereby Apio supplies Chiquita with its proprietary banana packaging technology on a worldwide basis for the ripening, conservation and shelf-life extension of bananas for most applications on an exclusive basis and for other applications on a non-exclusive basis. In addition, Apio provides Chiquita with ongoing research and development and process technology support for the BreatheWay membranes and bags, and technical service support throughout the customer chain in order to assist in the development and market acceptance of the technology. To maintain the exclusive license, Chiquita must meet annual minimum purchase thresholds of BreatheWay banana packages.

The initial market focus for the BreatheWay banana packaging technology using Chiquita® Brand bananas has been commercial outlets that normally do not sell bananas because of their short shelf-life - outlets such as quick serve restaurants, convenience stores and coffee chain outlets. Chiquita is currently testing the sale of bananas packaged with Landec's BreatheWay technology to retail grocery.

The Company recently expanded the use of its BreatheWay technology to avocados under an expanded licensing agreement with Chiquita. Market tests of avocados into the food service industry have recently started.

### ***Technology Licensing Businesses***

#### ***The Technology and Market Opportunity: Intellicoat Seed Coatings***

Following the sale of FCD, our strategy is to work closely with Monsanto to further develop our patented, functional polymer coating technology that can be broadly sold and/or licensed to the seed industry. In accordance with our license, supply and R&D agreement with Monsanto, we are currently focused on commercializing products for the seed corn market and then plan to broaden the technology to other seed crop applications.

Landec's Intellicoat seed coating applications are designed to control seed germination timing, increase crop yields, reduce risks and extend crop-planting windows. These coatings are currently available on hybrid corn, soybeans and male inbred corn used for seed production. In fiscal year 2000, Landec Ag launched its first commercial product, Pollinator Plus® coatings, which is a coating application used by seed companies as a method for spreading pollination to increase yields and reduce risk in the production of hybrid seed corn. There are approximately 650,000 acres of seed production in the United States and in 2007 Pollinator Plus was used by 25 seed companies on approximately 15% of the seed corn production acres in the U.S.

In 2003, Landec commercialized Early Plant® corn by selling the product directly to farmers through the Fielder's Choice Direct® brand. This application allows farmers to plant into cold soils without the risk of chilling injury, and

enables farmers to plant as much as four weeks earlier than normal. With this capability, farmers are able to utilize labor and equipment more efficiently, provide flexibility during the critical planting period and avoid yield losses caused by late planting. In 2007, seven seed companies offered Intellicoat on their hybrid seed corn offerings.

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***The Technology and Market Opportunity: Intelimer Polymer Applications***

We believe our technology has commercial potential in a wide range of industrial, consumer and medical applications. For example, our core patented technology, Intelimer materials, can be used to trigger the release of small molecule drugs, catalysts, pesticides or fragrances just by changing the temperature of the Intelimer materials or to activate adhesives through controlled temperature change. In order to exploit these opportunities, we have entered into and will enter into licensing and collaborative agreements for product development and/or distribution in certain fields. However, given the infrequency and unpredictability of when the Company may enter into any such licensing and research and development arrangements, the Company is unable to disclose its financial expectations in advance of entering into such arrangements.

***Personal Care and Cosmetic Applications***

Landec's personal care and cosmetic applications strategy is focused on supplying Intelimer materials to industry leaders for use in lotions and creams, and potentially hair care products, color cosmetics and lipsticks. The Company's partner, Air Products, is currently shipping products to L'Oreal for use in lotions and creams.

***Intelimer Polymer Systems***

Landec has developed latent catalysts useful in extending pot-life, extending shelf life, reducing waste and improving thermoset cure methods. Some of these latent catalysts are currently being distributed by Akzo-Nobel Chemicals B.V. through our licensing agreement with Air Products. The rights to develop and sell Landec's latent catalysts and personal care technologies were licensed to Air Products in March 2006.

***Medical Applications***

On December 23, 2005, Landec entered into an exclusive licensing agreement with Aesthetic Sciences Corporation ("Aesthetic Sciences") for the exclusive rights to use Landec's Intelimer materials technology for the development of dermal fillers worldwide. Landec will receive royalties on the sale of products incorporating Landec's technology. In addition, the Company has received shares of preferred stock valued at \$1.8 million which represents a 19.9% ownership interest in Aesthetic Sciences. At this time, the Company is unable to predict the ultimate outcome of the collaboration with Aesthetic Sciences and the timing or amount of future revenues, if any.

**Results of Operations****Revenues (in thousands):**

	<i>Three months</i>			<i>Six months</i>		
	<i>ended 11/25/07</i>	<i>ended 11/26/06</i>	<i>Change</i>	<i>ended 11/25/07</i>	<i>ended 11/26/06</i>	<i>Change</i>
<b><i>Apio Value Added</i></b>	\$ 39,264	\$ 35,812	10%	\$ 78,658	\$ 70,842	11%
<b><i>Apio Packaging</i></b>	177	41	332%	330	54	511%
<b><i>Technology Subtotal</i></b>	39,441	35,853	10%	78,988	70,896	11%
<b><i>Apio Trading</i></b>	17,855	18,616	(4)%	39,306	34,399	14%
<b><i>Total Apio</i></b>	57,296	54,469	5%	118,294	105,295	12%
<b><i>Tech. Licensing</i></b>	1,665	725	130%	3,326	1,047	218%
<b><i>Total Revenues</i></b>	\$ 58,961	\$ 55,194	7%	\$ 121,620	\$ 106,342	14%

***Apio Value Added***

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

The increase in Apio's value-added revenues for the three and six months ended November 25, 2007 compared to the same periods last year is due to increased product offerings, increased sales to existing customers and the addition of new customers. Overall value-added unit sales volume increased 17% and 18% for the three and six months ended November 25, 2007, respectively, compared to the same periods of the prior year. The increases in value-added sales volumes were higher than the increases in revenues due primarily to the introduction of several new value-added products during the first six months of fiscal year 2008 that have average sales prices per unit that are lower than the average sales prices per unit for other value-added products.

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*Apio Packaging*

Apio Packaging consists of Apio's packaging technology business using its BreatheWay membrane technology. The first commercial application included in Apio Packaging is our banana packaging technology.

The increase in revenues from Apio Packaging during the three and six months ended November 25, 2007 compared to the same periods last year was not material to consolidated Landec revenues.

*Apio Trading*

Apio trading revenues consist of revenues generated from the purchase and sale of primarily whole commodity fruit and vegetable products to Asia through Apio's export company, Cal-Ex and from the purchase and sale of whole commodity fruit and vegetable products domestically to Wal-Mart. The export portion of trading revenues for the three and six months ended November 25, 2007 was \$17.3 million and \$36.5 million, or 97% and 93%, respectively, of total trading revenues.

The decrease in revenues in Apio's trading business for the three months ended November 25, 2007 compared to the same period last year was primarily due to a 7% decrease in export volumes primarily due to the timing of product shipments which were more concentrated in the first quarter of fiscal year 2008 than the second quarter of fiscal year 2008 compared to the timing of shipments in fiscal year 2007 where the concentration was greater in the second quarter than the first quarter. The increase in revenues in Apio's trading business for the six months ended November 25, 2007 compared to the same period last year was due to a 13% increase in trading business sales volumes from an increase in customers.

*Technology Licensing*

Technology licensing revenues consist of revenues generated from the licensing agreements with Monsanto, Air Products and Nitta.

The increase in Technology Licensing revenues for the three and six months ended November 25, 2007 compared to the same period of the prior year was primarily due to the licensing revenues from the Monsanto license and supply agreement entered into on December 1, 2006.

**Gross Profit** (in thousands):

	<i>Three months</i>			<i>Six months</i>		
	<i>ended 11/25/07</i>	<i>ended 11/26/06</i>	<i>Change</i>	<i>ended 11/25/07</i>	<i>ended 11/26/06</i>	<i>Change</i>
<i>Apio Value Added</i>	\$ 6,029	\$ 6,420	(6)%	\$ 12,132	\$ 10,943	11%
<i>Apio Packaging</i>	146	16	813%	265	20	1225%
<i>Technology Subtotal</i>	6,175	6,436	(4)%	12,397	10,963	13%
<i>Apio Trading</i>	1,017	1,205	(16)%	2,108	2,032	4%
<i>Total Apio</i>	7,192	7,641	(6)%	14,505	12,995	12%
<i>Tech. Licensing</i>	1,665	635	162%	3,326	838	297%
<i>Total Gross Profit</i>	\$ 8,857	\$ 8,276	7%	\$ 17,831	\$ 13,833	29%



### *General*

There are numerous factors that can influence gross profits including product mix, customer mix, manufacturing costs, volume, sale discounts and charges for excess or obsolete inventory, to name a few. Many of these factors influence or are interrelated with other factors. Therefore, it is difficult to precisely quantify the impact of each item individually. The Company includes in cost of sales all the costs related to the sale of products in accordance with U.S. generally accepted accounting principles. These costs include the following: raw materials (including produce, seeds and packaging), direct labor, overhead (including indirect labor, depreciation, and facility related costs) and shipping and shipping related costs. The following discussion surrounding gross profits includes management's best estimates of the reasons for the changes for the three and six months ended November 25, 2007, compared to the same periods last year as outlined in the table above.

### *Apio Value-Added*

The decrease in gross profit for Apio's value-added specialty packaging vegetable business for the three months ended November 25, 2007 compared to the same period last year was primarily due to seasonal produce shortages which required the Company to purchase produce on the open market at prices above contracted prices which was not required in the second quarter of fiscal year 2007. The gross margin for Apio's value-added business for the second quarter of fiscal year 2008 was 15% compared to a gross margin of 18% during the second quarter of last year. The increase in gross profit for Apio's value-added specialty packaged vegetable business for the six months ended November 25, 2007 compared to the same period last year was primarily due to an increase in value-added sales which increased 11% during the six months ended November 25, 2007.

### *Apio Packaging*

The increase in gross profit for Apio Packaging for the three and six months ended November 25, 2007 compared to the same periods last year was not material to consolidated Landec gross profit.

### *Apio Trading*

Apio's trading business is a buy/sell business that realizes a commission-based margin in the 4-6% range. The decrease in Apio trading gross profits for the three months ended November 25, 2007 compared to the same period last year was due to a decrease in revenues coupled with a shift during the quarter to lower margin fruit export products from higher margin vegetable export products during the second quarter of fiscal year 2007 primarily due to a higher quantity of fruit products available for export during the second quarter of this year compared to the same period last year. The increase in Apio trading gross profit during the six months ended November 25, 2007 compared to the same periods last year was primarily due to increased trading revenues of 14%. The increase in Apio trading gross profit due to higher revenues was partially offset by a shift during the first half of fiscal year 2008 to lower margin fruit export products from higher margin vegetable export products during the first six months of fiscal year 2007 primarily due to a higher quantity of fruit products available for export during the first six months of this year compared to the same period last year.

### *Technology Licensing*

The increase in Technology Licensing gross profit for the three and six months ended November 25, 2007 compared to the same periods of the prior year was primarily due to the licensing income from the Monsanto licensing agreement entered into on December 1, 2006.

**Operating Expenses** (in thousands):

	<i>Three months</i> <i>ended 11/25/07</i>			<i>Six months</i> <i>ended 11/25/07</i>		
	<i>Three months</i> <i>ended 11/26/06</i>	<i>Change</i>	<i>Three months</i> <i>ended 11/26/06</i>	<i>Change</i>	<i>Six months</i> <i>ended 11/26/06</i>	<i>Change</i>
<b>Research and Development:</b>						
<i>Apio</i>	\$ 286	(11)%	\$ 323	\$ 656	\$ 563	17%
<i>Tech. Licensing</i>	502	(3)%	517	954	1,061	(10)%
<b>Total R&amp;D</b>	\$ 788	(6)%	\$ 840	\$ 1,610	\$ 1,624	(1)%
<b>Selling, General and Administrative:</b>						
<i>Apio</i>	\$ 3,340	0%	\$ 3,343	\$ 6,701	\$ 6,134	9%
<i>Corporate</i>	899	(77)%	3,946	2,084	6,057	(66)%
<b>Total S,G&amp;A</b>	\$ 4,239	(42)%	\$ 7,289	\$ 8,785	\$ 12,191	(28)%

*Research and Development*

Landec's research and development expenses consist primarily of expenses involved in the development and process scale-up initiatives. Research and development efforts at Apio are focused on the Company's proprietary BreatheWay membranes used for packaging produce, with recent focus on extending the shelf life of bananas and other shelf-life sensitive vegetables and fruit. In the Technology Licensing business, the research and development efforts are focused on uses for our proprietary Intelimer polymers outside of food.

The decrease in research and development expenses for the three months and six months ended November 25, 2007 compared to the same periods last year was not material.

*Selling, General and Administrative*

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

The decrease in selling, general and administrative expenses for the three and six months ended November 25, 2007 compared to the same periods last year was primarily due to the fact that selling, general and administrative expenses for Corporate for the three and six months ended November 26, 2006 included \$2.8 million and \$5.1 million, respectively, in expenses from Landec's former direct marketing and sales seed business which was sold to Monsanto in December 2006. For the six months ended November 26, 2006, these seed related expenses were partially offset by the recording of net proceeds of \$1.3 million from an insurance settlement.

**Other** (in thousands):

	<i>Three months</i> <i>ended 11/25/07</i>			<i>Six months</i> <i>ended 11/25/07</i>		
	<i>Three months</i> <i>ended 11/26/06</i>	<i>Change</i>	<i>Three months</i> <i>ended 11/26/06</i>	<i>Change</i>	<i>Six months</i> <i>ended 11/26/06</i>	<i>Change</i>
<i>Interest Income</i>	\$ 607	243%	\$ 177	\$ 1,388	\$ 413	236%
<i>Interest Expense</i>	(5)	(96)%	(121)	(13)	(191)	(93)%
<i>Minority Int. Exp.</i>	(109)	12%	(97)	(229)	(115)	99%
<i>Other Income (Exp.)</i>	—	N/M	2	—	(3)	N/M
<b>Total Other</b>	\$ 493	N/M	\$ (39)	\$ 1,146	\$ 104	1002%
<i>Income Taxes</i>	\$ (1,198)	N/M	\$ —	\$ (2,380)	\$ —	N/M

*Interest Income*

The increase in interest income for the three and six month periods ended November 25, 2007 compared to the same periods last year was due to the increase in cash available for investing.

*Interest Expense*

The decrease in interest expense during the three and six months ended November 25, 2007 compared to the same periods last year was due to the Company's reduction of debt.

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*Minority Interest Expense*

The minority interest expense consists of the minority interest associated with the limited partners' equity interest in the net income of Apio Cooling, LP.

The increase in the minority interest for the three and six months ended November 25, 2007 compared to the same periods last year was not material to consolidated Landec net income.

*Other Income (Expense)*

Other income (expense) consists of non-operating income and expenses.

*Income Taxes*

The increase in the income tax expense for the three and six months ended November 25, 2007 was due to the Company's projection of utilizing all of its net operating loss carryforwards and tax credits during fiscal year 2008 for income tax expense purposes which resulted in an estimated effective tax rate for fiscal year 2008 of approximately 28%.

**Liquidity and Capital Resources**

As of November 25, 2007, the Company had cash and cash equivalents of \$45.1 million, a net decrease of \$17.4 million from \$62.5 million at May 27, 2007.

*Cash Flow from Operating Activities*

Landec generated \$4.8 million of cash flow from operating activities during the six months ended November 25, 2007 compared to using \$6.8 million in operating activities during the six months ended November 26, 2006. The primary sources of cash from operating activities were from generating \$6.2 million of net income and from non-cash related expenses of \$4.5 million, such as depreciation, income tax expense not payable and stock based compensation. The sources of cash were partially offset by a decrease in current assets net of current liabilities of \$5.9 million. The primary components of this decrease in current assets net of current liabilities was an increase in inventories and notes and advances receivable at Apio primarily due to its winter investment in crops in the Imperial Valley of California, a decrease in accrued compensation as a result of bonus payments earned in fiscal year 2007 and a decrease in deferred revenue from recognizing revenues associated with the Monsanto purchase of FCD and the Intellicoat license agreement with Monsanto (see Note 3).

*Cash Flow from Investing Activities*

Net cash used in investing activities for the six months ended November 25, 2007 was \$1.4 million compared to \$5.6 million for the same period last year. The primary uses of cash from investing activities during the first six months of fiscal year 2008 were for the purchase of \$1.5 million of property and equipment primarily for the growth of Apio's value-added processing business.

*Cash Flow from Financing Activities*

Net cash used in financing activities for the six months ended November 25, 2007 was \$20.8 million compared to net cash provided by financing activities of \$3.8 million for the same period last year. The primary uses of cash from financing activities during the first six months of fiscal year 2008 were for the repurchase of all of the outstanding common stock and options of Apio not owned by Landec for \$20.8 million (see Note 8).

*Capital Expenditures*

During the six months ended November 25, 2007, Landec purchased property and equipment to support the growth of Apio's value added processing business. These expenditures represented the majority of the \$1.5 million of capital expenditures.

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### *Debt*

Apio has a \$7.0 million revolving line of credit with Wells Fargo Bank N.A. On September 1, 2007, Apio amended its revolving line of credit with Wells Fargo Bank N.A. extending the term of the line to August 31, 2009. In addition, the interest rate on the revolving line of credit was reduced to either prime less 0.50% or the LIBOR adjusted rate plus 1.50%. The revolving line of credit with Wells Fargo contains certain restrictive covenants, which require Apio to meet certain financial tests, including minimum levels of net income, maximum leverage ratio, minimum net worth and maximum capital expenditures. Landec has pledged substantially all of the assets of Apio to secure the line with Wells Fargo. At November 25, 2007, no amounts were outstanding under the revolving line of credit. Apio has been in compliance or received waivers for all loan covenants since the inception of this line.

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

Landec's future capital requirements will depend on numerous factors, including the progress of its research and development programs; the continued development of marketing, sales and distribution capabilities; the ability of Landec to establish and maintain new collaborative and licensing arrangements; any decision to pursue additional acquisition opportunities; weather conditions that can affect the supply and price of produce, the timing and amount, if any, of payments received under licensing and research and development agreements; the costs involved in preparing, filing, prosecuting, defending and enforcing intellectual property rights; the ability to comply with regulatory requirements; the emergence of competitive technology and market forces; the effectiveness of product commercialization activities and arrangements; and other factors. If Landec's currently available funds, together with the internally generated cash flow from operations are not sufficient to satisfy its capital needs, Landec would be required to seek additional funding through other arrangements with collaborative partners, additional bank borrowings and public or private sales of its securities. There can be no assurance that additional funds, if required, will be available to Landec on favorable terms if at all.

Landec believes that its debt facilities, cash from operations, along with existing cash, cash equivalents and existing borrowing capacities will be sufficient to finance its operational and capital requirements for the foreseeable future.

### **Additional Factors That May Affect Future Results**

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

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

In the past, our results of operations have fluctuated significantly from quarter to quarter and are expected to continue to fluctuate in the future. Historically, Landec Ag has been the primary source of these fluctuations, as its revenues and profits were concentrated over a few months during the spring planting season (generally during our third and fourth fiscal quarters). In addition, Apio can be heavily affected by seasonal and weather factors which have impacted quarterly results, such as the high cost of sourcing product in June/July 2006 and January 2007 due to a shortage of essential value-added produce items. Our earnings may also fluctuate based on our ability to collect accounts receivables from customers and note receivables from growers and on price fluctuations in the fresh vegetables and fruits markets. Other factors that affect our food and/or agricultural operations include:

- the seasonality of our supplies;
- our ability to process produce during critical harvest periods;
- the timing and effects of ripening;

- the degree of perishability;
- the effectiveness of worldwide distribution systems;
- total worldwide industry volumes;
- the seasonality of consumer demand;
- foreign currency fluctuations; and
- foreign importation restrictions and foreign political risks.

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

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

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

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

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

***We Face Strong Competition in the Marketplace***

Competitors may succeed in developing alternative technologies and products that are more effective, easier to use or less expensive than those which have been or are being developed by us or that would render our technology and



products obsolete and non-competitive. We operate in highly competitive and rapidly evolving fields, and new developments are expected to continue at a rapid pace. Competition from large food products, agricultural, industrial and medical companies is expected to be intense. In addition, the nature of our collaborative arrangements may result in our corporate partners and licensees becoming our competitors. Many of these competitors have substantially greater financial and technical resources and production and marketing capabilities than we do, and may have substantially greater experience in conducting clinical and field trials, obtaining regulatory approvals and manufacturing and marketing commercial products.

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

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

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

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

***We May Be Unable to Adequately Protect Our Intellectual Property Rights***

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

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

Our food packaging products are subject to regulation under the Food, Drug and Cosmetic Act (the "FDC Act"). Under the FDC Act, any substance that when used as intended may reasonably be expected to become, directly or indirectly, a component or otherwise affect the characteristics of any food may be regulated as a food additive unless the substance is generally recognized as safe. We believe that food packaging materials are generally not considered food additives by the FDA because these products are not expected to become components of food under their expected conditions of use. We consider our breathable membrane product to be a food packaging material not subject to regulation or approval by the FDA. We have not received any communication from the FDA concerning our breathable membrane product. If the FDA were to determine that our breathable membrane products are food additives, we may be required to submit a food additive petition for approval by the FDA. The food additive petition process is lengthy, expensive and uncertain. A determination by the FDA that a food additive petition is necessary

would have a material adverse effect on our business, operating results and financial condition.

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

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

The Company is subject to the Perishable Agricultural Commodities Act (“PACA”) law. PACA regulates fair trade standards in the fresh produce industry and governs all the products sold by Apio. Our failure to comply with the PACA requirements could among other things, result in civil penalties, suspension or revocation of a license to sell produce, and in the most egregious cases, criminal prosecution, which could have a material adverse effect on our business.

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

Our Food Products business is subject to weather conditions that affect commodity prices, crop yields, and decisions by growers regarding crops to be planted. Crop diseases and severe conditions, particularly weather conditions such as floods, droughts, frosts, windstorms, earthquakes and hurricanes, may adversely affect the supply of vegetables and fruits used in our business, which could reduce the sales volumes and/or increase the unit production costs. Because a significant portion of the costs are fixed and contracted in advance of each operating year, volume declines due to production interruptions or other factors could result in increases in unit production costs which could result in substantial losses and weaken our financial condition.

***We Depend on Strategic Partners and Licenses for Future Development***

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

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

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

regulations or interpretations relating to matters such as safe working conditions, laboratory and manufacturing practices, environmental controls, and disposal of hazardous or potentially hazardous substances may adversely affect our business.

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

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

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

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

For the six months ended November 25, 2007, approximately 30% of our total revenues were derived from product sales to international customers. A number of risks are inherent in international transactions. International sales and operations may be limited or disrupted by any of the following:

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

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

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

During the six months ended November 25, 2007, sales to our top five customers accounted for approximately 47% of our revenues, with our largest customer, Costco Wholesale Corp., accounting for approximately 19% of our revenues. We expect that, for the foreseeable future, a limited number of customers may continue to account for a substantial portion of our net revenues. We may experience changes in the composition of our customer base as we have experienced in the past. We do not have long-term purchase agreements with any of our customers. The reduction, delay or cancellation of orders from one or more major customers for any reason or the loss of one or more of our

major customers could materially and adversely affect our business, operating results and financial condition. In addition, since some of the products processed by Apio at its Guadalupe, California facility are sole sourced to its customers, our operating results could be adversely affected if one or more of our major customers were to develop other sources of supply. Our current customers may not continue to place orders, orders by existing customers may be canceled or may not continue at the levels of previous periods or we may not be able to obtain orders from new customers.

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

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

***Our Stock Price May Fluctuate in Accordance with Market Conditions***

The following events may cause the market price of our common stock to fluctuate significantly:

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

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

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

Our executive officers and directors and their affiliates own or control approximately 13% of our common stock (including options exercisable within 60 days). Accordingly, these officers, directors and shareholders may have the ability to exert significant influence over the election of our Board of Directors, the approval of amendments to our articles and bylaws and the approval of mergers or other business combination transactions requiring shareholder approval. This concentration of ownership may have the effect of delaying or preventing a merger or other business combination transaction, even if the transaction or amendments would be beneficial to our other shareholders. In addition, our controlling shareholders may approve amendments to our articles or bylaws to implement anti-takeover or management friendly provisions that may not be beneficial to our other shareholders.

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

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

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



The success of our business depends to a significant extent upon the continued service and performance of a relatively small number of key senior management, technical, sales, and marketing personnel. The loss of any of our key personnel would likely harm our business. In addition, competition for senior level personnel with knowledge and experience in our different 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.

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

Our Board of Directors has the authority, without further approval of our shareholders, to fix the rights and preferences, and to issue shares, of preferred stock. In November 1999, we issued and sold shares of Series A Convertible Preferred Stock and in October 2001 we issued and sold shares of Series B Convertible Preferred Stock. The Series A Convertible Preferred Stock was converted into 1,666,670 shares of Common Stock on November 19, 2002 and the Series B Convertible Preferred Stock was converted into 1,744,102 shares of Common Stock on May 7, 2004.

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

***We Have Never Paid any Dividends on Our Common Stock***

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

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

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

***Item 3. Quantitative and Qualitative Disclosures about Market Risk***

None.

***Item 4. Controls and Procedures***

**Evaluation of Disclosure Controls and Procedures**

Our management evaluated, with participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. 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 Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission, and to provide 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.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal controls over financial reporting during the quarter ended November 25, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

The Company is involved in litigation arising in the normal course of business. The Company is currently not a party to any legal proceedings which management believes could result in the payment of any amounts that would be material to the business or financial condition of the Company.

**Item 1A. Risk Factors**

Not applicable.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

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

At the Company's Annual Meeting of Shareholders held on October 11, 2007, the following proposals were adopted by the margins indicated:

	Number of Shares	
	Voted For	Withheld
1. Four Class II directors were elected by the margins indicated to serve for a term of office to expire at the second succeeding annual meeting of shareholders at which their successors will be elected and qualified:		
Gary T. Steele	22,213,700	704,710
Nicholas Tompkins	22,213,999	704,411
Duke K. Bristow, Ph.D.	22,271,388	647,022
Robert Tobin	22,215,379	703,031

The Class I directors were not up for election at the Annual Meeting. The four current Class I directors, Frederick Frank, Stephen E. Halprin, Richard S. Schneider, Ph.D. and Kenneth E. Jones will serve as Class I directors until the next Annual Meeting, when their successors will be elected and qualified.

	Voted For	Voted Against	Abstain
2. To ratify the appointment of Ernst & Young LLP as independent public accountants of the Company for the 2008 fiscal year.	22,800,719	104,601	13,089

The following proposal was also presented at the Company's 2007 Annual Meeting of Shareholders, but was not approved by the Company's shareholders:

	Voted For	Voted Against	Abstain
3. To reincorporate the Company from California to Delaware.	9,528,239	7,165,449	26,492

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibit Number	Exhibit Title:
10.73+	Amendment No. 1 to the Amended and Restated Credit Agreement between Apio, Inc. and Wells Fargo Bank, N.A., dated as of September 1, 2007.
31.1+	CEO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	CFO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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+ Filed herewith.

**SIGNATURES**

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

LANDEC CORPORATION

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

Date: January 4, 2008

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