LANDEC CORP \CA\
Form 10-K
August 13, 2010

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

FORM 10-K

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

For the Fiscal Year Ended May 30, 2010, or

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

For the Transition period for _____ to _____.

Commission file number: 0-27446

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

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

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

Registrant's telephone number, including area code:
(650) 306-1650
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	The NASDAQ Global Select Stock Market

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports),

and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

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

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

Large Accelerated Filer ¨	Accelerated Filer x
Non Accelerated Filer ¨	Smaller Reporting Company ¨

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

Yes ¨ No x

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $157,244,000 as of November 29, 2009, the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sales price on The NASDAQ Global Select Market reported for such date. Shares of Common Stock held by each officer and director and by each person who owns 10% or more of the outstanding Common Stock have been excluded from such calculation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of July 20, 2010, there were 26,507,778 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its October 2010 Annual Meeting of Stockholders which statement will be filed not later than 120 days after the end of the fiscal year covered by this report, are incorporated by reference in Part III hereof.

LANDEC CORPORATION
ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. Business

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Words such as "projected," "expects," "believes," "intends" and "assumes" and similar expressions are used to identify forward-looking statements. These statements are made based upon current expectations and projections about our business and assumptions made by our management and are not guarantees of future performance, nor do we assume any obligation to update such forward-looking statements after the date this report is filed. Our actual results could differ materially from those projected in the forward-looking statements for many reasons, including the risk factors listed in Item 1A. "Risk Factors" and the factors discussed below.

Corporate Overview

Landec Corporation and its subsidiaries ("Landec" or the "Company") design, develop, manufacture and sell polymer products for food and agricultural products, medical devices and licensed partner applications that incorporate Landec's patented polymer technologies. The Company has two proprietary polymer technology platforms: 1) Intelimer® polymers, and 2) Hyaluronan ("HA") biopolymers. The Company's proprietary polymer technologies are the foundation, and a key differentiating advantage, upon which Landec has built its business.

After the acquisition of Lifecore Biomedical, Inc. ("Lifecore") on April 30, 2010, Landec now has four core businesses – Food Products Technology, Commodity Trading, Hyaluronan-based Biomaterials and Technology Licensing, each of which is described below. Financial information concerning the industry segments for which the Company reported its operations during fiscal years 2008, 2009 and 2010 is summarized in Note 14 to the Consolidated Financial Statements.

Our wholly-owned subsidiary, Apio, operates our Food Products Technology business, combining Landec's proprietary food packaging technology with the capabilities of a large national food supplier and value-added produce processor. In Apio's value-added operations, produce is processed by trimming, washing, mixing, and packaging into bags and trays that incorporate Landec's BreatheWay® membrane technology. The BreatheWay membrane increases shelf life and reduces shrink (waste) for retailers and, for certain products, eliminates the need for ice during the distribution cycle and helps to ensure that consumers receive fresh produce by the time the product makes its way through the supply chain. Apio also licenses the BreatheWay technology to Chiquita Brands International, Inc. ("Chiquita") for packaging and distribution of bananas and avocados and to Windset Farms for packaging of greenhouse grown cucumbers, peppers and tomatoes.

Apio also operates the Commodity Trading business, which combines Apio's export company, Cal Ex Trading Company ("Cal-Ex"), with Apio's domestic buy-sell commodity business. The Commodity Trading business purchases and sells whole fruit and vegetable products to predominantly Asian markets.

Our newly acquired wholly-owned subsidiary, Lifecore, operates our Hyaluronan-based Biomaterials business and is principally involved in the development and manufacture of products utilizing hyaluronan, a naturally occurring polysaccharide that is widely distributed in the extracellular matrix of connective tissues in both animals and humans. Lifecore's products are primarily sold to three medical segments: (1) Ophthalmic, (2) Orthopedic and (3) Veterinary. Lifecore also supplies hyaluronan to customers pursuing other medical applications, such as aesthetic surgery, medical device coatings, tissue engineering and pharmaceuticals. Lifecore leverages its proprietary fermentation process to manufacture premium, pharmaceutical-grade hyaluronan, and its proprietary aseptic filling capabilities to deliver HA finished goods to its customers. Lifecore also manufactures and sells its own HA-based finished goods. Lifecore is known in the medical segments as the premium supplier of HA. Its name recognition allows Lifecore to acquire new customers and sell new products with only a small marketing or sales capability.

Landec's Technology Licensing business develops proprietary polymer technologies and applies them in a wide range of applications including seed coatings and treatments, temperature indicators, controlled release systems, drug delivery, pressure sensitive adhesives and personal care products. These applications are commercialized through partnerships with third parties resulting in licensing and royalty revenues. For example, Monsanto Company ("Monsanto") has an exclusive license to our Intellicoat® seed coating technology for specific seed treatment applications, Air Products and Chemicals, Inc. ("Air Products") has an exclusive license to our Intelimer polymers for personal care products and Nitta Corporation ("Nitta") licenses Landec's proprietary pressure sensitive adhesives for use in the manufacture of electronic components by their customers.

Landec was incorporated in California on October 31, 1986 and reincorporated as a Delaware corporation on November 6, 2008. Our common stock is listed on The NASDAQ Global Select Market under the symbol “LNDC”.

Technology Overview

Landec has two polymer technology platforms. The first platform is its proprietary Intelimer polymer. The Intelimer polymer is a crystalline, hydrophobic polymer that has very unique characteristics and benefits. The first unique feature of this polymer system is the way that it uses a temperature switch to control and modulate properties such as viscosity, permeability and adhesion when varying the materials’ temperature above and below the temperature switch. The sharp temperature switch is adjustable between 0-100°C. A second unique feature of the Intelimer polymer materials is its unique controlled release properties. The polymer is able to deliver active ingredients with low or no burst, with a sustained release over periods of time. Finally, Intelimer polymers can be designed to contain up to 80% renewable materials from components of natural raw materials such as rapeseed oil, palm oil or coconut oil, and can be supplied in biocompatible and bioerodible forms.

With the acquisition of Lifecore on April 30, 2010, Landec added its second proprietary polymer technology platform. Hyaluronan is a non-crystalline, hydrophilic polymer that exists naturally within the human body, especially within the aqueous humor of the eye, synovial fluid, skin and umbilical cord. The visco-elastic properties and water solubility of HA make it ideal for medicinal applications where lubricity and protection are critical. HA can be produced in two ways, either through bacterial fermentation or through extraction from rooster combs. Lifecore produces HA only from fermentation, using an extremely efficient microbial fermentation process and a highly effective purification operation.

A) Intelimer Polymers

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

Polymers are important and versatile materials found in many of the products of modern life. Certain polymers, such as cellulose and natural rubber, occur in nature. Man-made or synthetic polymers include nylon fibers used in carpeting and clothing, coatings used in paints and finishes, plastics such as polyethylene, and elastomers used in automobile tires and latex gloves. Historically, synthetic polymers have been designed and developed primarily for improved mechanical and thermal properties, such as strength and the ability to withstand high temperatures. Improvements in these and other properties and the ease of manufacturing synthetic polymers have allowed these materials to replace wood, metal and natural fibers in many applications over the last 50 years. More recently, scientists have focused their efforts on identifying and developing sophisticated polymers with novel properties for a variety of commercial applications.

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

and commercial environments. Figure 1 illustrates the effect of temperature on Intelimer materials as compared to typical polymers.

Landec's proprietary polymer technology is based on the structure and phase behavior of Intelimer materials. The abrupt thermal transitions of specific Intelimer materials are achieved through the controlled use of hydrocarbon side chains that are attached to a polymer backbone. Below a pre-determined switch temperature, the polymer's side chains align through weak hydrophobic interactions resulting in a crystalline structure. When this side chain crystallizable polymer is heated to, or above, this switch temperature, these interactions are disrupted and the polymer is transformed into an amorphous, viscous state. Because this transformation involves a physical and not a chemical change, this process is irreversible or repeatedly reversible. Landec can set the polymer switch temperature anywhere between 0°C to 100°C by varying the average length of the side chains. The reversible transitions between crystalline and amorphous states are illustrated in Figure 2 below.

This chemical structure provides an additional benefit. Spatially distinct regions of the Intelimer polymer confer different physical properties on the material. Each part can be tuned independently to meet the needs of a given application. For example, switching temperature (which arises from one part of the chain) can be adjusted independently of adhesive properties (which arise from another part of the chain). In addition to temperature, the pH and other environmental parameters can be used as the “switch” to trigger a significant change in physical properties. Also, side chain crystallizable polymers when mixed with any active material, for example a therapeutic drug, can control the release of the active materials by the crystalline structure of the Intelimer polymer while in the crystalline state. In this manner therapeutic drugs can be delivered over a sustained and long period of time. Or, a fragrance can be emitted steadily over a long period of time from a crystalline Intelimer polymer.

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

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

B) Hyaluronan Biopolymers

Hyaluronan, a naturally occurring polysaccharide, is a component of many tissues in the body and of physiological fluids that lubricate or otherwise protect the body’s soft tissues. Due to its widespread presence in tissues, its critical role in normal physiology and its high degree of biocompatibility, the Company believes that hyaluronan will continue to be used for an increasing variety of medical applications. Lifecore produces hyaluronan through a proprietary fermentation process.

Hyaluronan was first demonstrated to have commercial medical utility as a viscoelastic solution in cataract surgery. In this application, it is used for maintaining the shape of the anterior chamber and protecting corneal tissue during the removal and implantation of intraocular lenses. The first ophthalmic hyaluronan product, produced by extraction from rooster comb tissue, became commercially available in the United States in 1981. Hyaluronan-based products, produced either by rooster comb extraction or by fermentation processes such as Lifecore’s, have since gained widespread acceptance in ophthalmology and are currently used in the majority of cataract extraction procedures in the world. Lifecore’s hyaluronan is also used as an orthopedic carrier vehicle for allogeneic freeze-dried demineralized bone as the active component of devices to treat the symptoms of osteoarthritis, and as a formulation component to provide increased lubricity to medical devices. The Company’s hyaluronan has also been utilized in veterinary drug applications to treat traumatic arthritis.

Trademarks/Trade names

Intelimer®, Landec®, Apio®, Eat Smart®, BreatheWay®, Intellicoat®, Early Plant®, Pollinator Plus®, Relay® Cropping, Lifecore®, Revitalure™, LUROCOAT® and Ortholure™ are trademarks or registered trademarks and trade names of the Company in the United States and other countries. This Annual Report on Form 10-K also refers to the

trademarks of other companies.

Description of Core Business

Landec participates in four core business segments: Apio, Inc. with the Food Products Technology and Commodity Trading businesses, Lifecore Biomedical, LLC, with Hyaluronan-based Biomaterials business and Landec's Technology Licensing business.

A) Food Products Technology Business

The Company began marketing its proprietary Intelimer-based BreatheWay membranes in 1996 for use in the fresh-cut produce packaging market, historically one of the fastest growing segments in the produce industry. Landec's proprietary BreatheWay packaging technology is used to package fresh-cut or whole produce, the result is a convenient, ready-to-eat finished product that achieves increased shelf life and reduced shrink (waste) without the need for ice during the distribution cycle. These products are referred to as "value-added" products. In 1999, the Company acquired Apio, its then largest customer in the Food Products Technology business and one of the nation's leading marketers and packers of produce and specialty packaged fresh-cut vegetables. Apio utilizes a state-of-the-art fresh-cut processing facility and year-round access to quality vegetable sourcing to produce products which Apio distributes to top U.S. retail grocery chains, major club stores and foodservice customers. The Company's proprietary BreatheWay packaging business has been combined with Apio into a subsidiary that retains the Apio name. This vertical integration within the Food Products Technology business gives Landec direct access to the large and growing fresh-cut and whole produce market.

The Technology: BreatheWay Membranes

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

Fresh-cut produce is cut, washed, and packaged in a form that is ready to use by the consumer and is thus typically sold at premium price levels compared to unpackaged produce. The total U.S. fresh produce market is estimated to be $100 billion to $120 billion. Of this, U.S. retail sales of fresh-cut produce is estimated to comprise 10% of the fresh produce market. The Company believes that the growth of this market has been driven by consumer demand and the willingness to pay for convenience, freshness, uniform quality, and safety delivered to the point of sale.

Although fresh-cut produce companies have had success in the salad market, the industry has been slower to diversify into other fresh-cut vegetables or fruits due primarily to limitations in film and plastic tray materials used to package these products. After harvesting, vegetables and fruit continue to respire, consuming oxygen and releasing carbon dioxide. Too much or too little oxygen can result in premature spoilage and decay. Conventional packaging films used today, such as polyethylene and polypropylene, can be made with modest permeability to oxygen and carbon dioxide, but often do not provide the optimal atmosphere for the produce packaged. Shortcomings of conventional packaging materials have not significantly hindered the growth in the fresh-cut salad market because lettuce, unlike many vegetables and fruit, has low respiration requirements.

The respiration rate of produce varies from vegetable to vegetable and from fruit to fruit. To achieve optimal product performance, each unique fruit or vegetable requires its own unique package atmosphere conditions. The challenge facing the industry is to develop packaging that meets the highly variable needs that each product requires in order to achieve value creating performance. The Company believes that its BreatheWay packaging technology possesses all of the critical functionalities required to serve this diverse market. In creating a product package, a BreatheWay membrane is applied over a small cutout section or an aperture of a flexible film bag or plastic tray. This highly permeable "window" acts as the mechanism to provide the majority of the gas transmission requirements for the entire package. These membranes are designed to provide three principal benefits:

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

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

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

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

Landec is working with leaders in the club store, retail grocery chain and foodservice markets. The Company believes it will have growth opportunities for the next several years through new customers and products in the United States, expansion of its existing customer relationships, and through export and shipments of specialty packaged produce.

Landec manufactures its BreatheWay packaging through selected qualified contract manufacturers. In addition to using BreatheWay packaging for its value-added produce business, the Company markets and sells BreatheWay packaging directly to food distributors.

The Business: Food Products Technology

Our Food Products Technology business, operated through our Apio subsidiary, had revenues of approximately $175 million for the fiscal year ended May 30, 2010, $168 million for the fiscal year ended May 31, 2009 and $171 million for the fiscal year ended May 25, 2008.

Based in Guadalupe, California, Apio’s primary business is packaged fresh-cut and whole value-added products packaged in our proprietary BreatheWay packaging. The fresh-cut value-added products business markets a variety of fresh-cut and whole vegetables to the top retail grocery chains, club stores and foodservice suppliers. During the fiscal year ended May 30, 2010, Apio shipped nearly seventeen million cartons of produce to leading supermarket retailers, wholesalers, food service suppliers and club stores throughout North America, primarily in the United States.

There are four 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 from many locations 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 136,000 square foot value-added processing plant, recently expanded from 96,000 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 primary strategy is to operate one large central processing facility in one of California's largest, lowest cost growing regions, the Santa Maria Valley, and use packaging technology that allows for the nationwide delivery of fresh produce products.

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 19 new products.

Apio established its Apio Packaging division in 2005 to advance the sales of BreatheWay packaging technology for shelf-life sensitive vegetables and fruit. The Company's specialty packaging for case liner products extends the shelf life of certain produce commodities up to 50%. This shelf life extension can enable the utilization of alternative distribution strategies to gain efficiencies or reach new markets while maintaining product quality to the end customer.

Apio Packaging's first program has concentrated on bananas and was formally consummated when Apio entered into an agreement to supply 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.

For its part, Chiquita provides marketing, distribution and retail sales support for Chiquita® bananas sold worldwide in BreatheWay packaging. To maintain the exclusive license, Chiquita must meet quarterly minimum purchase thresholds of BreatheWay banana packages.

The initial market focus for the BreatheWay banana packaging technology using Chiquita bananas has been commercial outlets that normally do not sell bananas because of their short shelf-life – outlets such as mini marts, convenience stores and coffee chain outlets.

In fiscal year 2008, the Company expanded the use of its BreatheWay technology to include avocados and mangos under an expanded licensing agreement with Chiquita. Commercial sales of avocados packaged in Landec's BreatheWay packaging into the food service industry began late in fiscal year 2008 and commercial retail sales began in fiscal 2010.

In May 2007, Apio entered into an 18-month research and development agreement with Natick Soldier Research, Development & Engineering Center, a branch of the U.S. Military, to develop commercial uses for Landec's BreatheWay packaging technology within the U.S. Military by significantly increasing the shelf life of produce for overseas shipments. Apio is now an approved vendor for its BreatheWay packaging technology to the U.S. Military.

In June 2008, Apio entered into a collaboration agreement with Seminis Vegetable Seeds, Inc., a wholly-owned subsidiary of Monsanto, to develop novel broccoli and cauliflower products for the exclusive sale by Apio in the North American market. These novel products will be packaged in Landec's proprietary BreatheWay packaging and will be sold to retail grocery chains, club stores and the food service industry. Field trials for the initial target varieties began in the Fall of 2008 and will take several years to develop.

In June 2010, Apio entered into an exclusive license agreement with Windset Farms for Windset to utilize Landec's proprietary breathable packaging to extend the shelf life of greenhouse grown cucumbers, peppers and tomatoes.

B) Commodity Trading Business

Commodity 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. The Commodity Trading business is a buy/sell business that realizes a commission-based margin in the 5-7% range.

The Business: Commodity Trading

Commodity Trading had revenues of approximately $55 million for the fiscal year ended May 30, 2010, $60 million for the fiscal year ended May 31, 2009 and $60 million for the fiscal year ended May 25, 2008.

Apio is uniquely positioned to benefit from the growth in export sales to Asia and other parts of the world over the next decade with Cal-Ex. Through Cal-Ex, Apio is currently one of the largest U.S. exporters of broccoli to Asia.

C) Hyaluronan-based Biomaterials Business

Our Hyaluronan-based Biomaterials business, operated through our Lifecore subsidiary which was acquired by Landec on April 30, 2010, had revenues of approximately $1.5 million for the one month included in the fiscal year ended May 30, 2010.

The Technology: Hyaluronan-based Biomaterials

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

- Establish strategic relationships with market leaders. Lifecore will continue to develop applications for products with partners who have strong marketing, sales and distribution capabilities to end-user markets. Lifecore through its strong reputation and history of providing premium HA products has been able to establish long-term relationships with the market leading companies such as Alcon and Abbott Medical Optics in ophthalmology, and Musculoskeletal Transplant Foundation (MTF) and Novartis AG in orthopedics.

- Expand medical applications for hyaluronan. Due to the growing knowledge of the unique characteristics of hyaluronan and the role it plays in normal physiology, Lifecore continues to identify and pursue further uses for hyaluronan in other medical applications, such as wound care, aesthetic surgery, adhesion prevention, drug delivery, device coatings and pharmaceuticals. Further applications may involve expanding process development activity and/or additional licensing of technology.

- License hyaluronan technology from third parties. Lifecore currently has no commercial products using cross-linking technology and as a result, Lifecore entered into a world-wide exclusive license and development agreement with the Cleveland Clinic Foundation to develop and commercialize hyaluronan-based products and related applications. The license is for patented hyaluronan-based cross-linking technology, CorgelTM Biohydrogel products, that can be used for products in aesthetics, orthopedics, ophthalmology and other medical fields. Given the

broad number of applications, Lifecore anticipates that it will sublicense the technology for certain applications while retaining manufacturing rights.

- Utilize manufacturing infrastructure to pursue contract aseptic filling and fermentation opportunities. Lifecore will continue to evaluate providing contract services for opportunities that are suited for the capital and facility investment related to aseptic filling equipment, fermentation and purification.

- Maintain flexibility in product development and supply relationships. Lifecore's vertically integrated development and manufacturing capabilities allow it to establish a variety of relationships with global corporate partners. Lifecore's role in these relationships extends from supplying hyaluronan raw materials to manufacturing of aseptically-packaged, finished sterile products to developing and manufacturing its own proprietary products.

Hyaluronan Products

The following table summarizes the principal products of the Hyaluronan-based Biomaterials business, along with their applications, and the companies with which Lifecore has related strategic relationships:

PRODUCT	DESCRIPTION	MARKET	STATUS+
OPHTHALMIC			
Viscoat® Intraocular Viscoelastic	Lifecore supplies hyaluronan powder for inclusion in Alcon's Viscoat® Ophthalmic Viscoelastic.	Cataract surgery	Commercial sales since 1986
LUROCOAT Ophthalmic Viscoelastic	Lifecore supplies its private label product for marketing on a non-exclusive basis to multiple distribution partners.	Cataract surgery	Commercial sales since June 1997
ORTHOPEDIC			
Hyaluronan Solution for DBX® Demineralized Bone Matrix	Lifecore supplies a sterile hyaluronan solution to MTF for use as a carrier vehicle for its allogeneic demineralized, freeze-dried bone.	Grafting material for restoration of bone defects	Commercial sales since 2000
Hyaluron HEXAL® Orthopedic Viscosupplement	Lifecore supplies a finished orthopedic viscosupplement for Novartis AG's distribution network.	Injections for the local treatment of pain associated with osteoarthritis	Commercial sales since 2005
VETERINARY			
HY-50®	Lifecore supplies a finished veterinary viscosupplement to Bexco Pharma, Inc. for use as an equine injectable.	Veterinary drug/device	Commercial sales since 1993

+ For all products listed above, government regulatory approvals were required before commercial sales could commence in the United States or elsewhere. See "Government Regulation." No assurance can be given that such products will be successfully approved in new markets.

Ophthalmic Applications

Cataract Surgery. Currently, a primary commercial application for Lifecore's hyaluronan is in cataract surgery. Hyaluronan, in the form of a viscoelastic solution, is used to maintain a deep chamber during anterior segment surgeries (including cataract extraction and intraocular lens implantation) and to protect the corneal

endothelium and other ocular tissue. These solutions have been shown to reduce surgical trauma and thereby contribute to more rapid recovery with fewer complications than were experienced prior to the use of viscoelastics. Hyaluronan-based products are used in the majority of cataract surgeries in the world.

Lifecore currently sells hyaluronan for this application to Alcon, the leading producer of ophthalmic surgical products in the world, for inclusion in Viscoat Ophthalmic Viscoelastic. Lifecore's relationship with Alcon and its predecessors commenced in 1983. Since that time, sales of hyaluronan to Alcon have continued to be made pursuant to supply agreements. The current supply agreements are non-exclusive and encompass a term through December 2013.

Lifecore has developed its own viscoelastic solution, LUROCOAT Ophthalmic Viscoelastic. The Company received CE marking for LUROCOAT Ophthalmic Viscoelastic in 1997, allowing LUROCOAT Ophthalmic Viscoelastic to be marketed and sold outside the United States. Lifecore also has distribution agreements with multiple companies to supply its hyaluronan-based LUROCOAT Ophthalmic Viscoelastic under private label.

Lifecore signed an agreement with Abbott Medical Optics ("AMO") to supply Lifecore's hyaluronan-based viscoelastic under private label with sales commencing in 2004. The current supply agreement is non-exclusive and incorporates a term through May 2013 with renewal provisions.

Lifecore estimates that its hyaluronan has been used in over 40 million ophthalmic patients globally since 1983.

Orthopedic Applications

Lifecore supplies an aseptic hyaluronan solution to BioCon, Inc., the non-profit affiliate of MTF, which utilizes the solution as a carrier vehicle for its allogeneic demineralized, freeze-dried bone in a final putty composition trademarked as "DBX Demineralized Bone Matrix". This bone putty is provided by MTF to orthopedic surgeons through MTF's distribution channels. Lifecore has an exclusive supply agreement with MTF through December 2014.

Lifecore also supplies a private-labeled finished orthopedic viscosupplement for Novartis AG's distribution network.

Veterinary Applications

Lifecore manufactures Bexco Pharma, Inc.'s HY-50 product, an aseptically packaged hyaluronan solution for use as a veterinary viscosupplement as an equine injectable drug, under an exclusive supply agreement through June 2015 with renewal provisions.

Lifecore estimates that its veterinary hyaluronan product has been used in over 700,000 equine procedures worldwide.

Product Development

Lifecore undertakes its own product development activities for hyaluronan-based applications, as well as on a contract basis with certain clients. The majority of the projects are intended to demonstrate that Lifecore's hyaluronan is suitable for a particular medical application. Suitability is often measured by detailed specifications for product characteristics such as purity, stability, viscosity and molecular weight, as well as efficacy for a particular medical application in a clinical setting.

In addition, Lifecore has licensed a sodium hyaluronate cross-linking technology from Cleveland Clinic Foundation, the Corgel Biohydrogel technology. The development activity with this technology will be conducted over several years and is intended to demonstrate its efficacy in multiple medical applications.

There can be no assurance that products currently under development by Lifecore or in partnership with others will be successfully developed or, if so developed, will be successfully and profitably marketed.

D) Technology Licensing Business

Seeds Business – Intellicoat Seed Coatings and Landec Ag

Our Technology Licensing Business includes our seed coating subsidiary Landec Ag LLC ("Landec Ag") which had revenues of $6.1 million for the fiscal year ended May 30, 2010 and $5.4 million for each of the fiscal years ended May 31, 2009 and May 25, 2008.

Following the sale of Fielder's Choice Direct ("FCD"), Landec Ag's strategy has been to work closely with Monsanto to further develop our patented, functional polymer coating technology for sale and/or licensing to the seed industry. In accordance with its License, Supply and R&D agreement with Monsanto, Landec Ag is currently focused on commercializing products for the soybean and seed corn market and plans to broaden the technology to other seed crop applications.

The Technology: Intellicoat Seed Coatings

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 2010 Pollinator Plus was used by 10 seed companies on approximately 18% of the seed corn production acres in the U.S.

Monsanto announced in 2008 that it had formed a new business called the Seed Treatment Business which will allow Monsanto to develop its seed treatment requirements internally. The concept of seed treatments is to place an insecticide or fungicide directly onto the seed surface in order to protect the seed and the seedling as it emerges. Landec's Intellicoat seed coating technology could be an integral and proprietary part of Monsanto's commitment to building a major position in seed treatments worldwide by using Landec's seed coatings as a "carrier" of insecticides/fungicides which can be dispensed at the appropriate time based on time or soil temperature. During Fiscal year 2010 we amended our agreement with Monsanto and as a result our development activities are focused on a specific technology of interest to Monsanto. During fiscal year 2010, we have focused on validating the use of Landec's coating technology for these applications.

Sale of FCD

Landec received $50 million in cash paid at the close for its sale of FCD in December 2006. 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 was 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, is being allocated to the technology license agreement described below and is being recognized as revenue ratably over the five year term of the technology license agreement or $2 million per year beginning December 2006. The fair value of FCD was determined by management.

In December 2006, Landec also entered into a five-year co-exclusive technology license and polymer supply agreement ("the Monsanto Agreement") with Monsanto for the use of Landec's Intellicoat polymer seed coating technology. Under the terms of the Monsanto Agreement, Monsanto agreed to pay Landec Ag $2.6 million per

year. The Monsanto Agreement was amended in November 2009. Under the terms of the amended Monsanto Agreement, Monsanto continues to have an exclusive license to use Landec's Intellicoat polymer technology for specific seed treatment applications. Over the remaining two-year term of the amended Monsanto Agreement, Monsanto will investigate uses of Landec's Intellicoat technology in a variety of seed categories in the field exclusively licensed to Monsanto.

Along with regaining the use of the Intellicoat technology outside of the specific applications licensed to Monsanto under the amended Monsanto Agreement, Landec has assumed responsibility for Landec Ag's operating expenses and realizes all the revenues and profits from the sales of existing and new Intellicoat seed coating products.

For each of the fiscal years ended May 30, 2010, May 31, 2009 and May 25, 2008, Landec recognized $5.4 million in revenues and income from the Agreement.

The Monsanto Agreement also provides for a fee payable to Landec Ag of $4 million if Monsanto elects to terminate the Monsanto Agreement or $10 million if Monsanto elects to purchase the rights to the exclusive field. If the purchase option is exercised before December 2011, or if Monsanto elects to terminate the Monsanto Agreement, all annual license fees and supply payments that have not been paid to Landec Ag will become due upon the purchase or termination. If Monsanto does not exercise its purchase option by December 2011 Landec Ag will receive the termination fee and all rights to the Intellicoat seed coating technology will revert to Landec. Accordingly, we will receive aggregate minimum guaranteed payments of $17 million for license fees and polymer supply payments over five years or $23 million in aggregate maximum payments if Monsanto elects to purchase the rights to the exclusive field. The minimum guaranteed payments and the deferred gain of $2 million per year described above will result in Landec recognizing revenue and operating income of $5.4 million per year for fiscal years 2008 through 2011 and $2.7 million per year for fiscal years 2007 and 2012. The incremental $6 million to be received in the event Monsanto exercises the purchase option has been deferred and will be recognized upon the exercise of the purchase option. The fair value of the purchase option was determined by management to be less than the amount of the deferred revenue.

If Monsanto elects to purchase the rights to the exclusive field, a gain or loss on the sale will be recognized at the time of purchase. If Monsanto exercises its purchase option, we expect to enter into a new long-term supply agreement with Monsanto pursuant to which Landec would continue to be the exclusive supplier of Intellicoat polymer materials to Monsanto.

Non-Seed Business

We believe our technology has commercial potential in a wide range of industrial, consumer and medical applications beyond those identified in our other segments. For example, our core patented technology, Intelimer materials, can be used to trigger release of catalysts, insecticides 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 corporate 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.

Industrial Materials and Adhesives

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

Intelimer Latent Catalyst 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.

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, as well as color cosmetics, lipsticks and hair care. The Company's partner, Air Products, is currently shipping products to L'Oreal, Mentholatum and other companies for use in lotions and creams. The rights to develop and sell Landec's polymers for personal care products were licensed to Air Products in March 2006 along with the latent catalyst rights.

Intelimer Drug Delivery Polymers

Landec has been developing both biodegradable and non-biodegradable polymers for use in drug delivery applications targeting the use of its highly crystalline polymers and the tunable physical properties to minimize or eliminate burst, extend drug release profiles and deliver novel valuable properties to the pharma industry.

Sales and Marketing

Each of the Company's core businesses is supported by dedicated sales and marketing resources. The Company intends to develop its internal sales capacity as more products progress toward commercialization and as business volume expands geographically. During fiscal years 2010, 2009 and 2008, sales to the Company's top five customers accounted for approximately 48%, 46% and 47%, respectively, of its revenues, with the top customer, Costco Wholesale Corp., accounting for approximately 20%, 21% and 20%, respectively, of the Company's revenues.

Apio

Apio has 22 sales and marketing employees, located in central California and throughout the U.S., supporting the Food Products Technology business and the Commodity Trading business.

Seasonality

The Company's sales are moderately seasonal. Prior to the sale of FCD, Landec Ag revenues and profits were concentrated over a few months during the spring planting season (generally during the Company's third and fourth fiscal quarters). In addition, the Food Products Technology business can be heavily affected by seasonal weather factors which have impacted quarterly results, such as high cost of sourcing product due to a shortage of essential value-added produce items. The Commodity Trading business also typically recognized a much higher percentage of its revenues and profit during the first half of Landec's fiscal year compared to the second half. Lifecore's business is not materially affected by seasonality.

Manufacturing and Processing

Food Products Technology Business

The manufacturing process for the Company's proprietary BreatheWay packaging products is comprised of polymer manufacturing, membrane manufacturing and label package conversion. A third party toll manufacturer currently makes virtually all of the polymers for the BreatheWay packaging system. Select outside contractors currently manufacture the breathable membranes and Landec has transitioned virtually all of the label package conversion to Apio's Guadalupe facility to meet the increasing product demand and to provide additional developmental capabilities.

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

Hyaluronan-based Biomaterials Business

The commercial production of hyaluronan by Lifecore requires fermentation, separation and purification capabilities. Products are supplied in a variety of bulk and single dose configurations.

Lifecore produces its hyaluronan through a proprietary fermentation process. Until the introduction of Lifecore's medical grade hyaluronan, the only commercial source for medical hyaluronan was through a process of extraction from rooster combs. Lifecore believes that the fermentation manufacturing approach is superior to rooster comb extraction because of greater efficiency and flexibility, a more favorable long-term regulatory environment, and better economies of scale in producing large commercial quantities.

Lifecore's 112,000 square foot facility in Chaska, Minnesota is primarily used for the proprietary hyaluronan manufacturing process, formulation and aseptic syringe and bulk filling. The Company believes that the current inventory on-hand, together with its manufacturing capacity, will be sufficient to allow it to meet the needs of its current customers for the foreseeable future.

Lifecore provides versatility in the manufacturing of various types of finished products. Currently, it supplies several different forms of hyaluronan in a variety of molecular weight fractions as powders, solutions and gels, and in a variety of bulk and single-use finished packages. Lifecore continues to conduct development work designed to improve production efficiencies and expand its capabilities to achieve a wider range of hyaluronan product specifications in order to address the broadening opportunities for using hyaluronan in medical applications.

The Company's facility was designed to meet applicable regulatory requirements and has been cleared for the manufacture of both device and pharmaceutical products. The FDA periodically inspects the Company's manufacturing systems and requires conformance to the FDA's Quality Systems Regulations ("QSR"). In addition, Lifecore's corporate partners conduct intensive quality audits of the facility. Lifecore also periodically contracts with independent regulatory consultants to conduct audits of its operations. The Company maintains a Quality System which assures conformance to all applicable current standards (21 CFR820, 21 CFR210-211, ISO 13485:2003, 93/42/EEC, and Canadian Medical Device Regulation:1998). These approvals represent international symbols of quality system assurance and compliance with applicable European Medical Device Directives, which greatly assist in the marketing of Lifecore's products in the European Union.

Lifecore purchases raw materials for its production of hyaluronan-based products from outside vendors. While these materials are available from a variety of sources, the Company principally uses limited sources for some of its key materials to better monitor quality and achieve cost efficiencies.

Technology Licensing Business

Landec performs its batch seed coating operations in a leased facility in Oxford, Indiana. This facility is being used to coat other seed companies' inbred seed corn with the Company's Pollinator Plus seed corn coatings.

Landec has a pilot manufacturing facility in Indiana to support process development, scale-up and commercialization of the Company's seed coating programs. This facility utilizes a continuous coating process that has increased seed coating capabilities by over tenfold compared to the previous system using batch coaters.

General

Several of the raw materials used in manufacturing certain of the Company's products are currently purchased from a single source. Upon manufacturing scale-up of seed coating operations, the Company may enter into alternative supply arrangements. Although to date the Company has not experienced difficulty acquiring materials for the manufacture of its products, no assurance can be given that interruptions in supplies will not occur in the future, that the Company will be able to obtain substitute vendors, or that the Company will be able to procure comparable materials at similar prices and terms within a reasonable time. Any such interruption of supply could have a material adverse effect on the Company's ability to manufacture and distribute its products and, consequently, could materially and adversely affect the Company's business, operating results and financial condition.

Research and Development

Landec is focusing its research and development resources on both existing and new applications of its polymer technologies. Expenditures for research and development for the fiscal years ended May 30, 2010, May 31, 2009 and May 25, 2008 were $4.4 million, $3.7 million and $3.3 million, respectively. Research and development expenditures funded by corporate or governmental partners were $0 for the fiscal year ended May 30, 2010, $152,000 for the fiscal year ended May 31, 2009 and $418,000 for the fiscal year ended May 25, 2008. The Company may continue to seek funds for applied materials research programs from U.S. government agencies as well as from commercial entities. The Company anticipates that it will continue to have significant research and development expenditures in order to maintain its competitive position with a continuing flow of innovative, high-quality products and services. As of May 30, 2010, Landec had 49 employees engaged in research and development with experience in polymer and analytical chemistry, product application, product formulation, mechanical and chemical engineering.

Competition

The Company operates in highly competitive and rapidly evolving fields, and new developments are expected to continue at a rapid pace. Competition from large food processors, packaging companies, agricultural companies, medical and pharmaceutical companies is intense. In addition, the nature of the Company's collaborative arrangements and its technology licensing business may result in its corporate partners and licensees becoming competitors of the Company. Many of these competitors have substantially greater financial and technical resources and production and marketing capabilities than the Company, and many have substantially greater experience in conducting field trials, obtaining regulatory approvals and manufacturing and marketing commercial products. There can be no assurance that these competitors will not succeed in developing alternative technologies and products that are more effective, easier to use or less expensive than those which have been or are being developed by the Company or that would render the Company's technology and products obsolete and non-competitive.

Patents and Proprietary Rights

The Company's success depends in large part on its ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. The Company has had 37 U.S. patents issued of which 27 remain active as of May 30, 2010 with expiration dates ranging from 2010 to 2023. The Company's issued and pending patents include claims relating to compositions, devices and use of a class of temperature sensitive polymers that exhibit distinctive properties of permeability, adhesion and viscosity control. There can be no assurance that any of the pending patent applications will be approved, that the Company will develop additional proprietary products that are patentable, that any patents issued to the Company will provide the Company with competitive advantages or will not be challenged by any third parties or that the patents of others will not prevent the commercialization of products incorporating the Company's technology. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products or design around the Company's patents. Any of the foregoing results could have a material adverse effect on the Company's business, operating results and financial condition.

The commercial success of the Company will also depend, in part, on its ability to avoid infringing patents issued to others. The Company has received, and may in the future receive, from third parties, including some of its competitors, notices claiming that it is infringing third party patents or other proprietary rights. If the Company were determined to be infringing any third-party patent, the Company could be required to pay damages, alter its products or processes, obtain licenses or cease certain activities. In addition, if patents are issued to others which contain claims that compete or conflict with those of the Company and such competing or conflicting claims are ultimately determined to be valid, the Company may be required to pay damages, to obtain licenses to these patents, to develop

or obtain alternative technology or to cease using such technology. If the Company is required to obtain any licenses, there can be no assurance that the Company will be able to do so on commercially favorable terms, if at all. The Company's failure to obtain a license to any technology that it may require to commercialize its products could have a material adverse impact on the Company's business, operating results and financial condition.

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

In addition to patent protection, the Company also relies on trade secrets, proprietary know-how and technological advances which the Company seeks to protect, in part, by confidentiality agreements with its collaborators, employees and consultants. There can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any breach, or that the Company's trade secrets and proprietary know-how will not otherwise become known or be independently discovered by others.

Government Regulation

Government regulation in the United States and other countries is a significant factor in the marketing of certain of the Company’s products and in the Company’s ongoing research and development activities. Some of the Company’s products are subject to extensive and rigorous regulation by the FDA, which regulates some of the products as medical devices and which, in some cases, requires Pre-Market Approval (“PMA”), and by foreign countries, which regulate some of the products as medical devices or drugs. Under the Federal Food, Drug, and Cosmetic Act (“FDC Act”), the FDA regulates the clinical testing, manufacturing, labeling, distribution, sale and promotion of medical devices in the United States.

Following the enactment of the Medical Device Amendments of 1976 to the FDC Act, the FDA classified medical devices in commercial distribution at the time of enactment (“pre-Amendment devices”) into one of three classes - Class I, II or III. This classification is based on the controls necessary to reasonably assure the safety and effectiveness of medical devices. Class I devices are those whose safety and effectiveness can reasonably be assured through general controls, such as establishment registration and labeling, and adherence to FDA-mandated current QSR requirements for devices. Most Class I devices are exempt from FDA premarket review, but some require premarket notification (“510(k) Notification”). Class II devices are those whose safety and effectiveness can reasonably be assured through the use of special controls, such as performance standards, postmarket surveillance, patient registries and FDA guidelines. Class III devices are devices that require a PMA from the FDA to assure their safety and effectiveness. A PMA ordinarily must contain data from a multi-center clinical study demonstrating the device’s safety and effectiveness for the intended use and patient population. Class III devices are generally life-sustaining, life-supporting or implantable devices, and also include most devices that were not on the market before May 28, 1976 (“new devices”) and for which the FDA has not made a finding of substantial equivalence based upon a 510(k) Notification. A pre-Amendment Class III device does not require a PMA unless and until the FDA issues a regulation requiring submission of a PMA application for the device.

The FDA requires clinical data for a PMA application and has the authority to require such data for a 510(k) Notification. If clinical data are necessary, the company that sponsors the study must follow the FDA’s Investigational Device Exemption (“IDE”) regulations governing the conduct of human studies. The FDA’s regulations require institutional review board approval of the study and the informed consent of the study subjects. In addition, for a “significant risk” device, the FDA must approve an IDE application before the study can begin. Non-significant risk

devices do not require FDA approval of an IDE application, and are conducted under the “abbreviated IDE” requirements. Once in effect, an IDE or abbreviated IDE permits evaluation of devices under controlled clinical conditions. After a clinical evaluation process, the resulting data may be included in a PMA application or a 510(k) Notification. The PMA may be approved or the 510(k) Notification may be cleared by the FDA only after a review process that may include FDA requests for additional data, sometimes requiring further studies.

If a manufacturer or distributor of medical devices can establish to the FDA's satisfaction through a 510(k) Notification that a new device is substantially equivalent to what is called a "predicate device," i.e., a legally marketed Class I or Class II medical device or a legally marketed pre-Amendment Class III device for which the FDA has not required a PMA, the manufacturer or distributor may market the new device. In the 510(k) Notification, a manufacturer or distributor makes a claim of substantial equivalence, which the FDA may require to be supported by various types of information, including data from clinical studies, showing that the new device is as safe and effective for its intended use as the predicate device.

Following submission of the 510(k) Notification, the manufacturer or distributor may not place the new device into commercial distribution until the FDA issues a "substantial equivalence" determination finding the new device to be substantially equivalent to a predicate device. The FDA has a 90 day period in which to respond to a 510(k) Notification; (30 days for a Special 510(k)). Depending on the specific submission and subsequent agency information requests, the 510(k) Notification process can take significantly longer to complete. The FDA may agree with the manufacturer or distributor that the new device is substantially equivalent to a predicate device and allow the new device to be marketed in the United States. The FDA may, however, determine that the new device is not substantially equivalent and require the manufacturer or distributor to submit a PMA or require further information, such as additional test data, including data from clinical studies, before it is able to make a determination regarding substantial equivalence. Although the PMA process is significantly more complex, time-consuming and expensive than the 510(k) Notification process, the latter process can also be expensive and substantially delay the market introduction of a product. Modifications to a device that is marketed under a 510(k) Notification might require submission of a new 510(k) prior to their implementation, although some modifications can be made through a "note to file" procedure described in FDA guidance.

For devices that cannot be found "substantially equivalent" to a predicate device, the manufacturer must submit a PMA application, petition for reclassification, or submit a PMA application via the de novo process. A PMA must contain information on the materials and manufacturing process for the device, results of preclinical testing, clinical data, and labeling for the device. The FDA has 180 days to review a PMA application, but may request additional information, which could include additional studies. The FDA might refer a PMA to an advisory committee of outside experts to review and make recommendation on whether a device should be approved. After considering the data in the PMA application and the recommendations of an advisory committee, the FDA can approve the device, approve the device with conditions or refuse approval. Devices approved by the FDA are subject to periodic reporting requirements, and may be subject to restrictions on sale, distribution or use.

Hyaluronan products are generally Class III devices. In cases where the Company is supplying hyaluronan to a corporate partner as a raw material or producing a finished product under a license for the partner, the corporate partner will be responsible for obtaining the appropriate FDA clearance or approval. Export of the Company's hyaluronan products generally requires approval of the importing country and compliance with the export provisions of the FDC Act.

Other regulatory requirements are placed on the manufacture, processing, packaging, labeling, distribution, recordkeeping and reporting of a medical device and on the quality control procedures, such as the FDA's device QSR regulations. Manufacturing facilities are subject to periodic inspections by the FDA to assure compliance with device QSR requirements. Lifecore's facility is subject to inspections as both a device and a drug manufacturing operation. For PMA devices, the Company is required to submit an annual report and to obtain approval of a PMA supplement for modifications to the device or its labeling. Other applicable FDA requirements include the medical device reporting ("MDR") regulation, which requires that the Company provide information to the FDA regarding deaths or serious injuries alleged to have been associated with the use of its devices, as well as product malfunctions that would likely cause or contribute to death or serious injury if the malfunction were to recur. The FDA also

requires reporting regarding notices of correction and the removal of a medical device.

If the Company is not in compliance with FDA requirements, the FDA or the federal government can order a recall, detain the Company's devices, refuse to grant 510(k) Notification clearances or PMA approvals, withdraw or limit product approvals, institute proceedings to seize the Company's devices, seek injunctions to control or prohibit marketing and sales of the Company's devices, assess civil money penalties and impose criminal sanctions against the Company, its officers or its employees.

There can be no assurance that any of the Company's clinical studies will show safety or effectiveness; that 510(k) Notifications or PMA applications or supplemental applications will be submitted or, if submitted, accepted for filing; that any of the Company's products that require clearance of a 510(k) Notification or approval of a PMA application or PMA supplement will obtain such clearance or approval on a timely basis, on terms acceptable to the Company for the purpose of actually marketing the products, or at all; or that following any such clearance or approval previously unknown problems will not result in restrictions on the marketing of the products or withdrawal of clearance or approval.

Product Liability

Product liability claims may be asserted with respect to the Company's products. The Company maintains product liability insurance coverage in amounts the Company deems to be adequate There can be no assurance that the Company will have sufficient resources to satisfy product claims if they exceed available insurance coverage.

Employees

As of May 30, 2010, Landec had 229 full-time employees, of whom 158 were dedicated to research, development, manufacturing, quality control and regulatory affairs and 71 were dedicated to sales, marketing and administrative activities. Landec intends to recruit additional personnel in connection with the development, manufacturing and marketing of its products. None of Landec's employees is represented by a union, and Landec believes its relationship with its employees is good.

Available Information

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

Item 1A. Risk Factors

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

The Global Economy is Currently Undergoing a Period of Slowdown and Unprecedented Volatility, Which May Have an Adverse Effect on Our Business

The U.S. and international economy and financial markets have experienced significant slowdown and volatility due to uncertainties related to the availability of credit, energy prices, difficulties in the banking and financial services sectors, softness in the housing market, severely diminished market liquidity, geopolitical conflicts, falling consumer confidence and rising unemployment rates. This slowdown has and could further lead to reduced demand for our products, which in turn, would reduce our revenues and adversely affect our business, financial condition and results of operations. In particular, the slowdown and volatility in the global markets have resulted in softer demand and more conservative purchasing decisions by customers, including a tendency toward lower-priced products, which could negatively impact our revenues, gross margins and results of operations. In addition to a reduction in sales, our

profitability may decrease during downturns because we may not be able to reduce costs at the same rate as our sales decline. These slowdowns are expected to worsen if current economic conditions are prolonged or deteriorate further. We cannot predict the ultimate severity or length of the current economic crisis, or the timing or severity of future economic or industry downturns.

Given the current unfavorable economic environment, our customers may have difficulties obtaining capital at adequate or historical levels to finance their ongoing business and operations, which could impair their ability to make timely payments to us. This may result in lower sales and/or additional inventory or bad debt expense for Landec. In addition to the impact of the economic downturn on our customers, some of our vendors and growers may experience a reduction in their availability of funds and cash flows, which could negatively impact their business as well as ours. A continuing or deepening downturn of the U.S. economy, including increased volatility in the credit markets, could adversely impact our customers' and vendors' ability or willingness to conduct business with us on the same terms or at the same levels as they have historically.

We are unable to predict the likely duration and severity of the current disruption in the financial markets and adverse economic conditions in the U.S. and other countries and such conditions, if they persist or worsen, will further adversely impact our business, operating results, and financial condition. Further, these conditions and uncertainty about future economic conditions make it challenging for Landec to forecast its operating results, make business decisions, and identify the risks that may affect its business, sources and use of cash, financial condition and results of operations.

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 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 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.

Uncertainty Relating To Integration Of Lifecore And Other New Business Acquisitions.

The Company's acquisition of Lifecore involves the integration of Lifecore's operations into the Company. The integration will require the dedication of management resources in order to achieve the anticipated operating efficiencies of the acquisition. No assurance can be given that any difficulties encountered in integrating the operations of Lifecore into the Company will be overcome or that the benefits expected from such integration will be realized. The difficulties in combining Lifecore and the Company's operations are exacerbated by the necessity of coordinating geographically separate organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures. The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of the combined company's business. Difficulties encountered or additional costs incurred in connection with the acquisition and the integration of the operations of Lifecore and the Company could have a material adverse effect on the business, results of operations and financial condition of the Company.

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

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

Our success in generating significant sales of our products 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, HA-based products 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, medical and pharmaceutical 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, medical and pharmaceutical companies is expected to be intense. In addition, the nature of our collaborative arrangements may result in our corporate partners and licensees becoming our competitors. Many of these competitors have substantially greater financial and technical resources and production and marketing capabilities than we do, and may have substantially greater experience in conducting clinical and field trials, obtaining regulatory approvals and manufacturing and marketing commercial products.

We Have a Concentration of Manufacturing in One Location for Apio and Lifecore 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 or Lifecore's facility in Chaska, Minnesota would reduce our ability to sell our products and would have a material adverse effect on our financial results. Additionally, we may need to consider seeking collaborative arrangements with other companies to manufacture our products. If we become dependent upon third parties for the manufacture of our products, our profit margins and our ability to develop and deliver those products on a timely basis may be adversely affected. 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, substrate materials for our breathable membrane products and raw materials for our HA products. Any interruption of our relationship with single-source suppliers or service providers could delay product shipments and materially harm our business.

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

fines, injunctions, civil penalties, and suspensions,

withdrawal of regulatory approvals,

product recalls and product seizures, including cessation of manufacturing and sales,

operating restrictions, and

criminal prosecution.

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

Our 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.

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.

Our Food Products Technology business 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.

Lifecore's existing products and its products under development are considered to be medical devices and, therefore, require clearance or approval by the FDA before commercial sales can be made in the United States. The products also require the approval of foreign government agencies before sales may be made in many other countries. The process of obtaining these clearances or approvals varies according to the nature and use of the product. It can involve lengthy and detailed laboratory and clinical testing, sampling activities and other costly and time-consuming procedures. There can be no assurance that any of the required clearances or approvals will be granted on a timely

basis, if at all.

In addition, most of the existing products being sold by Lifecore and its customers are subject to continued regulation by the FDA, various state agencies and foreign regulatory agencies which regulate manufacturing, labeling and record keeping procedures for such products. Marketing clearances or approvals by these agencies can be withdrawn due to failure to comply with regulatory standards or the occurrence of unforeseen problems following initial clearance or approval. These agencies can also limit or prevent the manufacture or distribution of the Lifecore's products. A determination that Lifecore is in violation of such regulations could lead to the imposition of civil penalties, including fines, product recalls or product seizures, injunctions, and, in extreme cases, criminal sanctions.

Federal, state and local regulations impose various environmental controls on the use, storage, discharge or disposal of toxic, volatile or otherwise hazardous chemicals and gases used in some of 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.

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

Our Food Products Technology 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.

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

For fiscal year 2010, approximately 29% 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 fiscal year 2010, sales to our top five customers accounted for approximately 48% of our revenues, with our largest customer, Costco Wholesale Corporation, accounting for approximately 20% 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. 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 and by Lifecore at its Chaska, Minnesota facility are sole sourced to customers, our operating results could be adversely affected if one or more of our major customers were to develop other sources of supply. Our current customers may not continue to place orders, orders by existing customers may be canceled or may not continue at the levels of previous periods or we may not be able to obtain orders from new customers.

Our 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.

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.

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 stockholders, 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 in November 2002 and the Series B Convertible Preferred Stock was converted into 1,744,102 shares of Common Stock in May 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 stockholders’ equity. Goodwill arises when an acquirer pays more for a business than the fair value of the tangible and separately measurable intangible net assets. In accordance with accounting guidance, 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.

1B. Unresolved Staff Comments

None.

Item 2. Properties

As of May 30, 2010, the Company owned or leased properties in Menlo Park, Arroyo Grande and Guadalupe, California; West Lebanon and Oxford, Indiana and Chaska, Minnesota.

These properties are described below:

Location	Business Segment	Ownership	Facilities	Acres of Land	Lease Expiration
Menlo Park, CA	Technology Licensing	Leased	14,600 square feet of office and laboratory space	—	12/31/14
Chaska, MN	Hyaluronan-based Biomaterials	Owned	112,000 square feet of office, laboratory and manufacturing space	27.5	—
West Lebanon, IN	Technology Licensing	Owned	4,000 square feet of warehouse and manufacturing space	—	—
Oxford, IN	Technology Licensing	Leased	13,400 square feet of laboratory and manufacturing space	—	6/30/11
Guadalupe, CA	Food Products Technology	Owned	199,000 square feet of office space, manufacturing and cold storage	17.7	—
Arroyo Grande, CA	Commodity Trading	Leased	1,100 square feet of office space	—	6/30/11

The obligations of the Company under its credit agreement with Wells Fargo Bank, N.A. are secured by a lien on the Chaska, MN land and building.

Item 3. 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 significant to the business or financial condition of the Company.

Item 4. [Removed and Reserved]

PART II

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

Market Information

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

Fiscal Year Ended May 30, 2010	High	Low
4th Quarter ending May 30, 2010	$ 7.45	$ 5.50
3rd Quarter ending February 28, 2010	$ 6.63	$ 5.81
2nd Quarter ending November 29, 2009	$ 7.03	$ 6.00
1st Quarter ending August 30, 2009	$ 7.17	$ 5.99
Fiscal Year Ended May 31, 2009	High	Low
4th Quarter ending May 31, 2009	$ 7.00	$ 3.87
3rd Quarter ending March 1, 2009	$ 7.36	$ 4.76
2nd Quarter ending November 30, 2008	$ 9.68	$ 5.81
1st Quarter ending August 31, 2008	$ 9.93	$ 6.35

Holders

There were approximately 72 holders of record of 26,507,778 shares of outstanding Common Stock as of July 20, 2010. Since certain holders are listed under their brokerage firm's names, the actual number of stockholders is higher.

Dividends

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

Issuer Purchases of Equity Securities

There were no shares repurchased by the Company during the fiscal quarter ended on May 30, 2010.

Item 6. Selected Financial Data

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

Statement of Income Data: (in thousands)	Year Ended May 30, 2010	Year Ended May 31, 2009	Year Ended May 25, 2008	Year Ended May 27, 2007	Year Ended May 28, 2006
Revenues:					
Product sales	$ 228,390	$ 224,404	$ 227,550	$ 201,892	$ 225,404
Service revenues	3,699	4,145	3,640	3,539	3,725
License fees	5,400	6,000	6,231	4,013	2,398
R&D and royalty revenues	735	1,389	1,106	1,054	426
Total revenues	238,224	235,938	238,527	210,498	231,953
Cost of revenue:					
Cost of product sales	201,466	198,369	197,288	175,252	188,904
Cost of service revenue	2,992	3,289	3,011	2,860	3,005
Total cost of revenue	204,458	201,658	200,299	178,112	191,909
Gross profit	33,766	34,280	38,228	32,386	40,044
Operating costs and expenses:					
Research and development	4,361	3,665	3,251	3,074	3,042
Selling, general and administrative	17,698	18,017	19,801	21,616	27,979
Income from sale of FCD	—	—	—	(22,669)	—
Total operating costs and expenses	22,059	21,682	23,052	2,021	31,021
Operating profit	11,707	12,598	15,176	30,365	9,023
Interest income	834	1,306	2,219	1,945	633
Interest expense	(88)	(8)	(22)	(251)	(452)
Other expenses	(3,725)				
Net income before taxes	8,728	13,896	17,373	32,059	9,204
Income tax expense	(4,262)	(5,611)	(3,354)	(2,456)	—
Consolidated net income	4,466	8,285	14,019	$ 29,603	9,204
Non controlling interest	(482)	(555)	(477)	(414)	(553)
Net income applicable to Common Stockholders	$ 3,984	$ 7,730	$ 13,542	$ 29,189	$ 8,651
Basic net income per share	$ 0.15	$ 0.30	$ 0.52	$ 1.16	$ 0.35

Diluted net income per share	$ 0.15	$ 0.29	$ 0.50	$ 1.07	$ 0.34
Shares used in per share computation:					
Basic	26,382	26,202	26,069	25,260	24,553
Diluted	26,633	26,751	26,935	26,558	25,657

	May 30, 2010	May 31, 2009	May 25, 2008	May 27, 2007	May 28, 2006
Balance Sheet Data: (in thousands)					
Cash and cash equivalents	$ 27,817	$ 43,459	$ 44,396	$ 62,556	$ 15,164
Total assets	200,197	153,498	149,957	141,368	119,025
Debt	23,770	—	—	—	2,018
Retained earnings (deficit)	13,206	9,222	1,492	(19,332)	(41,239)
Total stockholders' equity	$ 130,784	$ 125,406	$ 114,466	$ 110,228	$ 85,049

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

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

Overview

Since its inception in October 1986, the Company has been engaged in the research and development of its Intelimer technology and related products. The Company has launched four product lines from this core development – QuickCast™ splints and casts, in April 1994, which was subsequently sold to Bissell Healthcare Corporation in August 1997; BreatheWay packaging technology for the fresh-cut and whole produce packaging market, in September 1995; Intelimer Polymer Systems that includes polymer materials for various industrial applications in June 1997 and for personal care applications in November 2003; and Intellicoat coated corn seeds in the Fall of 1999. In addition, on April 30, 2010, the Company acquired Lifecore which develops and manufactures products utilizing hyaluronan, a naturally occurring polysaccharide that is widely distributed in the extracellar matrix of connective tissues in both animals and humans.

With the acquisition of Lifecore, Landec has four core businesses – Food Products Technology, Commodity Trading, Hyaluronan-based Biomaterials and Technology Licensing. The Food Products Technology segment combines the Company's Intelimer packaging technology with Apio's fresh-cut and whole produce business. The Commodity Trading business is operated through Apio and combines Apio's Cal-Ex export company with Apio's domestic buy-sell commodity business that purchases and sells whole fruit and vegetable products to Asia and domestically. The Hyaluronan-based Biomaterials business sells products utilizing hyaluronan in the ophthalmic, orthopedic and veterinary segments and also supplies hyaluronan to customers pursuing other medical applications, such as aesthetic surgery, medical device coatings, tissue engineering and pharmaceuticals. The Technology Licensing business includes our proprietary Intellicoat seed coating technology in which certain fields of application have been licensed to Monsanto and our Intelimer polymer business that licenses and/or supplies products to companies such as Air Products and Nitta. See "Business - Description of Core Business".

From inception through May 30, 2010, the Company's retained earnings were $13.2 million. The Company may incur losses in the future. The amount of future net profits, if any, is uncertain and there can be no assurance that the Company will be able to sustain profitability in future years.

Critical Accounting Policies and Use of Estimates

Use of Estimates

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

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

Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance for doubtful accounts is based on review of the overall condition of accounts receivable balances and review of significant past due accounts. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Bad debt losses are partially mitigated due to the fact that the Company's customers are predominantly large financially low-risk national and international companies.

Inventories

Inventories are stated at the lower of cost or market. If the cost of the inventories exceeds their expected market value, provisions are recorded currently for the difference between the cost and the market value. These provisions are determined based on specific identification for unusable inventory and an additional reserve, based on historical losses, for inventory currently considered to be usable.

Revenue Recognition

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

The Company takes title to all produce it trades and/or packages, and therefore, records revenues and cost of sales at gross amounts in the Consolidated Statements of Income.

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

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

Goodwill and Other Intangibles

The Company's intangible assets are comprised of customer relationships with an estimated useful life of twelve years and trademarks/trade names and goodwill with indefinite lives (collectively, "intangible assets"), which the Company recognized in accordance with accounting guidance (i) upon the acquisition of Lifecore in April 2010, our Hyaluronan-based Biomaterials reporting unit, (ii) upon the acquisition of Apio in December 1999, which consists of our Food Products Technology and Commodity Trading reporting units and (iii) from the repurchase of all noncontrolling interests in the common stock of Landec Ag in December 2006. Accounting guidance defines goodwill as "the excess of the cost of an acquired entity over the net of the estimated fair values of the assets acquired and the liabilities assumed at date of acquisition." All intangible assets, including goodwill, associated with the acquisitions of Lifecore and Apio were allocated to the Hyaluronan-based Biomaterials and Food Products Technology reporting unit, respectively, pursuant to accounting guidance based upon the allocation of assets and liabilities acquired and consideration paid for each reporting unit. The consideration paid for the Commodity Trading reporting unit approximated its fair market value at the time of acquisition, and therefore no intangible assets were recorded in connection with the Company's acquisition of this reporting unit. Goodwill associated with the Technology Licensing reporting unit consists entirely of goodwill resulting from the repurchase of the Landec Ag non controlling interests.

The Company tests its intangible assets for impairment at least annually, in accordance with accounting guidance. When evaluating indefinite-lived intangible assets for impairment, accounting guidance requires the Company to compare the fair value of the asset to its carrying value to determine if there is an impairment loss. When evaluating goodwill for impairment, accounting guidance requires the Company to first compare the fair value of the reporting unit to its carrying value to determine if there is an impairment loss. If the fair value of the reporting unit exceeds its carrying value, goodwill is not considered impaired; thus application of the second step of the two-step approach under accounting guidance is not required. Application of the intangible assets impairment tests requires significant judgment by management, including identification of reporting units, assignment of assets and liabilities to reporting units, assignment of intangible assets to reporting units, and the determination of the fair value of each indefinite-lived intangible asset and reporting unit based upon projections of future net cash flows, discount rates and market multiples, which judgments and projections are inherently uncertain.

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

The Company tested its indefinite-lived intangible assets and goodwill for impairment as of July 25, 2010 and determined that no adjustments to the carrying values of the intangible assets were necessary as of that date. On a quarterly basis, the Company considers the need to update its most recent annual tests for possible impairment of its intangible assets, based on management's assessment of changes in its business and other economic factors since the most recent annual evaluation. Such changes, if significant or material, could indicate a need to update the most recent annual tests for impairment of the intangible assets during the current period. The results of these tests could lead to write-downs of the carrying values of the intangible assets in the current period.

The Company uses the discounted cash flow ("DCF") approach to develop an estimate of fair value. The DCF approach recognizes that current value is premised on the expected receipt of future economic benefits. Indications of value are developed by discounting projected future net cash flows to their present value at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment. The market approach was not used to value the Food Products Technology, Hyaluronan-based Biomaterials and Technology Licensing reporting units (the "Reporting Units") because insufficient market comparables exist to enable the Company to develop a reasonable fair value of its intangible assets due to the unique nature of each of the Company's Reporting Units.

The DCF approach requires the Company to exercise judgment in determining future business and financial forecasts and the related estimates of future net cash flows. Future net cash flows depend primarily on future product sales, which are inherently difficult to predict. These net cash flows are discounted at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment.

The DCF associated with the Technology Licensing reporting unit is based on the Monsanto Agreement with Monsanto. Under the Monsanto Agreement, Monsanto has agreed to pay Landec Ag a license fee of $2.6 million in cash per year for five years beginning in December 2006, and a fee of $4.0 million if Monsanto elects to terminate the Monsanto Agreement, or $10.0 million if Monsanto elects to purchase the rights to the exclusive field. If the purchase option is exercised before December 2011, or if Monsanto elects to terminate the Monsanto Agreement, all annual license fees that have not been paid to Landec Ag will become due upon the purchase or termination. As of May 30, 2010, the fair value of the Technology Licensing reporting unit, as determined by the DCF approach, exceeded its book value, and therefore, no intangible asset impairment was deemed to exist. The discount rate utilized approximates the risk free interest rate as the cash flow stream is guaranteed under the terms of the Monsanto Agreement. A 1% increase in the discount rate would not have a significant impact on the excess of fair value over book value.

The DCF associated with the Food Products Technology reporting unit is based on management's five-year projection of revenues, gross profits and operating profits by fiscal year and assumes a 37% effective tax rate for each year. Management takes into account the historical trends of Apio and the industry categories in which Apio operates along with inflationary factors, current economic conditions, new product introductions, cost of sales, operating expenses, capital requirements and other relevant data when developing its projection. As of May 30, 2010, the fair value of the Food Products Technology reporting unit, as determined by the DCF approach, exceeded its book value, and therefore, no intangible asset impairment was deemed to exist. A 1% increase in the discount rate would not have a significant impact on the excess of fair value over book value.

The fair value of indefinite and finite-lived intangible assets associated with our acquisition of Lifecore on April 30, 2010, was determined using a DCF model based on management's five-year projections of revenues, gross profits and operating profits by fiscal year and assumes a 33% effective tax rate for each year. Management takes into account the historical trends of Lifecore and the industry categories in which Lifecore operates along with inflationary factors, current economic conditions, new product introductions, cost of sales, operating expenses, capital requirements and other relevant data when developing its projection. The trade name intangible asset was valued using the relief from royalty valuation method and the customer relationship intangible asset was valued using the multi-period excess earnings method. The fair value of goodwill was calculated as the excess of consideration paid, including the fair value of contingent consideration under the terms of the purchase agreement, over the fair value of the tangible and intangible assets acquired less liabilities assumed. The Company updated its analysis of the fair value of the indefinite-lived intangible assets and goodwill as of its annual impairment analysis date, concluding that the fair value of the Hyaluronan-based Biomaterials reporting unit, as determined by the DCF approach, exceeded its book value, and therefore, no intangible asset impairment was deemed to exist. There were no impairment indicators identified by the Company in its analysis of impairment associated with the acquired finite-lived intangible assets.

Income Taxes

The Company accounts for income taxes in accordance with accounting guidance which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. The Company maintains valuation allowances when it is likely that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the Company's income tax provision in the period of change. In determining whether a valuation allowance is warranted, the Company takes into account such factors as prior earnings history, expected future earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of a deferred tax asset, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset. At May 30, 2010, the Company had no valuation allowance against deferred tax assets.

In addition to valuation allowances, the Company establishes accruals for certain tax contingencies, when, despite the belief that the Company's tax return positions are fully supported, the Company believes that certain tax positions are likely to be challenged and that the Company's positions may not be fully sustained. The tax-contingency accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense. The Company's effective tax rate includes the impact of tax-contingency accruals as considered appropriate by management.

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

Stock-Based Compensation

The Company's stock-based awards include stock option grants and restricted stock unit awards (RSUs).

The Company adopted accounting guidance 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.

The estimated fair value for stock options, which determines the Company's calculation of compensation expense, is based on the Black-Scholes pricing model. Upon the adoption of new accounting guidance, the Company changed its method of calculating and recognizing the fair value of stock-based compensation arrangements to the straight-line, single-option method. Compensation expense for all stock option and restricted stock unit awards granted prior to May 29, 2006 will continue to be recognized using the straight-line, multiple-option method. In addition, the new accounting guidance requires the estimation of the expected forfeitures of stock-based awards at the time of grant. As a result, the Company uses historical data to estimate pre-vesting forfeitures and records stock-based compensation expense only for those awards that are expected to vest and revises those estimates in subsequent periods if the actual forfeitures differ from the prior estimates.

Notes and Advances Receivable

Apio has made advances to produce growers for crop and harvesting costs. Typically these advances are paid off within the growing season (less than one year) from crops harvested by the grower and delivered to Apio. Advances not fully paid during the current growing season are converted to interest bearing obligations, evidenced by contracts and notes receivable. These notes receivable and advances are secured by liens on land and/or crops and have terms that range from six to twelve months. Notes receivable are periodically reviewed (at least quarterly) for collectibility. A reserve is established for any note or advance deemed to not be fully collectible based upon an estimate of the crop value to be delivered or the fair value of the security for the note or advance. If crop prices or the fair value of the underlying security declines, the Company may be unable to fully recoup its notes or advances receivable and the estimated losses would rise in the current period, potentially to the extent of the total notes or advances receivable of $241,000 as of May 30, 2010.

Recent Accounting Pronouncements

Recently Adopted Pronouncements

Accounting Standards Codification

Effective July 1, 2009, the FASB Accounting Standards Codification (FASB ASC) is the single source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. The adoption of the FASB ASC does not impact the Company’s consolidated financial statements, however, the Company’s references to accounting literature within its notes to the condensed consolidated financial statements have been revised to conform to the FASB ASC beginning with the fiscal quarter ending November 29, 2009.

Business Combinations

In December 2007, the FASB issued new guidance which significantly changes the financial accounting and reporting for business combination transactions. The new guidance requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of the new guidance will, among other things, impact the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration); exclude transaction costs from acquisition accounting; and change accounting practices for acquired contingencies, acquisition-related restructuring costs, in-process research and development, indemnification assets, and tax benefits. The Company adopted the new guidance on June 1, 2009. The Company acquisition of Lifecore (see Note 2) was subject to the provisions of this new guidance, under which the Company recognizing $2.7 million of expenses related to the acquisition during the fiscal year ended May 30, 2010. These expenses are classified as other expenses.

Non Controlling Interests

In December 2007, the FASB issued new guidance with respect to non controlling interests in consolidated financial statements. The new guidance requires the reporting of all non controlling interests as a separate component of stockholders' equity, the reporting of consolidated net income (loss) as the amount attributable to both the parent and the non controlling interests and the separate disclosure of net income (loss) attributable to the parent and to the non controlling interests. Changes in a parent's ownership interest while the parent retains its controlling interest will be accounted for as equity transactions and any retained non controlling equity investment upon the deconsolidation of a subsidiary will be initially measured at fair value. Other than the reporting requirements described above which require retrospective application, the provisions of the new guidance are to be applied prospectively. The Company adopted the new guidance on June 1, 2009 and such adoption did not have a material impact on the Company's results of operations or financial position for the fiscal year ended May 30, 2010, however, as required, presentation of non controlling interests has been conformed to the requirements of the new guidance for all periods presented.

Collaborative Arrangements

In December 2007, the FASB issued new guidance concerning the accounting for collaborative arrangements (which does not establish a legal entity within such arrangement). The consensus indicates that costs incurred and revenues generated from transactions with third parties (i.e. parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements based upon their role as either principal or agent. Additionally, the consensus provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative guidance; analogy to such guidance if not within their scope; or a reasonable, rational, and consistently applied accounting policy election. The Company adopted the new guidance on June 1, 2009 and such adoption did not have an impact on the Company's results of operations or financial position for the fiscal year ended May 30, 2010.

Fair Value Disclosures in Interim Reports

In April 2009, the FASB issued new guidance that requires disclosures about the fair value of financial instruments at interim reporting periods. The new guidance is effective for interim reporting periods ending after June 15, 2009. The Company adopted the new guidance on June 1, 2009 and such adoption did not have an impact on the Company's results of operations or financial position for the fiscal year ended May 30, 2010.

Subsequent Events

In May 2009, the FASB issued new guidance that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Company adopted the new guidance on June 1, 2009 and such adoption did not impact the Company's consolidated financial statements. The Company determined that the basis for the date through which the entity has evaluated subsequent events represents the date the financial statements were file with the Securities and Exchange Commission.

Fair Value Measurements

In January 2010, the FASB new guidance whereas reporting entities will have to provide information about movements of assets among Levels 1 and 2; and a reconciliation of purchases, sales, issuance, and settlements of activity valued with a Level 3 method, of the three-tier fair value hierarchy established by previous accounting guidance. The new guidance also clarifies the existing guidance to require fair value measurement disclosures for each class of assets and liabilities. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2009 for Level 1 and 2 disclosure requirements and after December 15, 2010 for Level 3 disclosure requirements. The Company adopted the guidance during fiscal 2010 and such adoption did not impact the Company's consolidated financial statements other than the required disclosures.

Recently Issued Pronouncements

Variable Interest Entities

In June 2009, the FASB issued new guidance which amends the evaluation criteria to identify the primary beneficiary of a variable interest entity. Additionally, the new guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary of the variable interest entity. The Company will adopt this new guidance in fiscal year 2011 and does not expect a material impact on the Company's consolidated financial statements as a result of the new guidance.

Revenue Recognition

In October 2009, the FASB issued new guidance in relation to "Multiple-Deliverable Revenue Arrangements". The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. The Company plans to early adopt these standards as of the beginning of fiscal 2011 for new deals originating after May 30, 2010. There will be no materially modified deals as a result of the adoption. The Company is not able to reasonably estimate the effect of adopting these standards on future financial periods as the impact will vary based on the nature and volume of new multiple-deliverable revenue arrangements in any given period.

Fair Value Measurements

The Company adopted fair value measurement accounting guidance on May 26, 2008 for financial assets and liabilities and for financial instruments and certain other items at fair value. The Company did not elect the fair value option for any of its eligible financial assets or liabilities.

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

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

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

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

As of May 30, 2010, the Company held certain assets that are required to be measured at fair value on a recurring basis. These included the Company's cash equivalents and marketable securities for which the fair value is determined based on observable inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Company has categorized its cash equivalents and marketable securities as Level 1. As of May 30, 2010, the Company recorded to Other Comprehensive Loss on the Consolidated Balance Sheets an unrealized loss of $179,000, net of taxes of $105,000, as a result of the interest rate swap. The unrealized loss was based on a Level 2 hierarchy for fair value measurements. If the interest rate swap is terminated or the debt borrowed is paid off prior to April 30, 2015, the amount of unrealized loss or gain included in Other Comprehensive Income (Loss) would be reclassified to earnings. The Company has no intentions of terminating the interest rate swap or prepaying the debt in the next twelve months. The interest rate swap liability is included in other non-current liabilities as of May 30, 2010. The Company has no other financial assets or liabilities for which fair value measurement has been adopted.

Results of Operations

Fiscal Year Ended May 30, 2010 Compared to Fiscal Year Ended May 31, 2009

Revenues (in thousands):

	Fiscal Year ended May 30, 2010	Fiscal Year ended May 31, 2009	Change
Apio Value Added	$ 172,416	$ 165,648	4%
Apio Packaging	2,630	2,608	1%
Food Technology	175,046	168,256	4%
Commodity Trading	54,926	60,445	(9)%
Total Apio	229,972	228,701	1%
HA	1,457	—	N/M
Technology Licensing	6,795		