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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Fiscal Quarter Ended July 29, 2001, or

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

For the Transition period from _______ to _______.

Commission file number: **0-27446**

LANDEC CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes _X_ No __

As of August 31, 2001, there were 16,562,845 shares of Common Stock and 166,667 shares of Convertible Preferred Stock, convertible into ten shares of Common Stock for each share of Preferred Stock, outstanding.

LANDEC CORPORATION
FORM 10-Q For the Quarter Ended July 29, 2001

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LANDEC CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)
(In thousands)

	July 29, 2001	October 29, 2000
Assets		
Current Assets:		
Cash and cash equivalents	$ 5,456	$ 9,589
Accounts receivable, less allowance for doubtful accounts of $889 and $627 at July 29, 2001 and October 29, 2000	19,259	22,725
Inventory	16,016	14,501
Investment in farming activities	251	2,672
Notes and advances receivable	5,977	8,519
Notes receivable, related party	427	151
Prepaid expenses and other current assets	2,465	1,958
Assets held for sale	2,954	2,963
Total Current Assets	52,805	63,078
Property and equipment, net	28,730	24,437
Intangible assets, net	41,964	43,386
Notes receivable	689	720
Other assets	1,493	1,631
	$ 125,681	$ 133,252
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 17,190	$ 19,374
Grower payables	6,264	13,651
Related party payables	337	262
Accrued compensation	1,727	2,470
Other accrued liabilities	7,922	9,522
Deferred revenue	455	2,265
Lines of credit	17,664	9,609
Current maturities of long term debt	5,139	3,584
Total Current Liabilities	56,698	60,737

Long term debt, less current maturities	15,335	16,631
Other liabilities	1,867	2,442
Minority interest	1,074	1,264
Total Liabilities	74,974	81,074
Shareholders' Equity:		
Preferred stock	9,149	9,149
Common stock	93,186	92,555
Accumulated deficit	(51,628)	(49,526)
Total Shareholders' Equity	50,707	52,178
	$ 125,681	$ 133,252

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	July 29, 2001	July 30, 2000 (restated)	July 29, 2001	July 30, 2000 (restated)
Revenues:				
Product sales	$ 35,357	$ 35,279	$ 115,392	$ 100,822
Services revenue	12,790	25,443	41,669	53,432
Services revenue, related party	1,830	563	2,858	1,324
Research and development revenues	147	117	376	391
License fees	93	93	280	280
Total revenues	50,217	61,495	160,575	156,249
Cost of revenue:				
Cost of product sales	30,095	30,814	95,194	82,995
Cost of product sales, related party	194	105	301	243
Cost of services revenue	12,769	21,978	40,088	47,577
Total cost of revenue	43,058	52,897	135,583	130,815
Gross profit	7,159	8,598	24,992	25,434
Operating costs and expenses:				
Research and development	1,180	1,172	3,397	3,326
Selling, general and administrative	6,732	7,481	22,182	21,367
Total operating costs and expenses	7,912	8,653	25,579	24,693
Operating profit (loss)	(753)	(55)	(587)	741
Interest income	175	265	485	681
Interest expense	(744)	(613)	(2,028)	(1,652)
Other (expense) income	(23)	(165)	28	(71)
Net loss before the cumulative effect of change in accounting principle	(1,345)	(568)	(2,102)	(301)
Cumulative effect of change in accounting principle	—	—	—	(1,914)
Net loss	$ (1,345)	$ (568)	$ (2,102)	$ (2,215)
Amounts per common share:				
Net loss before cumulative effect of change in accounting principle	$ (0.08)	$ (0.04)	$ (0.13)	$ (0.02)
Cumulative effect of change in accounting principle	—	—	—	(0.12)
Basic and diluted net loss per share	$ (0.08)	$ (0.04)	$ (0.13)	$ (0.14)
Shares used in per share computation	16,467	16,006	16,308	15,693

See accompanying notes.

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

	Nine Months Ended	
	July 29, 2001	July 30, 2000
		(restated)
Cash flows from operating activities:		
Net loss	$ (2,102)	$ (301)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,755	4,253
Cumulative effect of change in accounting principle	—	1,914
Disposal of property and equipment	530	—
Changes in current assets and liabilities:		
Accounts receivable	3,466	(6,553)
Inventory	(1,515)	(3,135)
Investment in farming activities	2,421	1,197
Prepaid expenses and other current assets	(507)	1,180
Accounts payable	(2,184)	5,902
Grower payables	(7,387)	4,376
Related party payables	75	324
Accrued compensation	(743)	224
Other accrued liabilities	(1,600)	(3,873)
Deferred revenue	(1,810)	(3,726)
Total adjustments	(4,499)	2,083
Net cash (used in) provided by operating activities	(6,601)	1,782
Cash flows from investing activities:		
Decrease in other assets and liabilities	(437)	477
Purchases of property and equipment	(7,152)	(3,260)
Decrease (increase) in notes receivable and advances	2,297	(4,107)
Acquisition costs related provisions under purchase agreements	(995)	(403)
Acquisition of Apio, Inc., net of cash received	—	(5,813)
Net cash used in investing activities	(6,287)	(13,106)
Cash flows from financing activities:		
Proceeds from sale of preferred stock	—	9,149
Proceeds from sale of common stock	631	329
Borrowings on lines of credit	25,515	11,313
Payments on lines of credit	(17,460)	—
Borrowing of long term debt	3,631	—
Repayment of long term debt	(3,372)	(1,671)
Increase in minority interest liability	59	—
Distributions to minority interest	(249)	(121)
Net cash provided by financing activities	8,755	18,999
Net increase (decrease) in cash and cash equivalents	(4,133)	7,675
Cash and cash equivalents at beginning of period	9,589	3,203
Cash and cash equivalents at end of period	5,456	$ 10,878

See accompanying notes.

LANDEC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Landec Corporation ("Landec" or the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations, and cash flows at July 29, 2001, and for all periods presented, have been made. Although Landec believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with generally accepted accounting principles have been condensed or omitted per the rules and regulations of the Securities and Exchange Commission. The accompanying financial data should be reviewed in conjunction with the audited financial statements and accompanying notes included in Landec's Annual Report on Form 10-K for the fiscal year ended October 29, 2000.

The results of operations for the nine month period ended July 29, 2001 are not necessarily indicative of the results that may be expected for the fiscal year ended October 28, 2001. For instance, due to the cyclical nature of the corn seed industry, a significant portion of revenues and profits for Landec Ag, Landec's agricultural seed technology subsidiary, is concentrated over a few months during the spring planting season (generally during Landec's second fiscal quarter).

2. Recent Pronouncements

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

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

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal year 2002. Application of the nonamortization provisions of the Statement is expected to result in an increase in net income of approximately $2.4 million ($0.15 per share) per year. During fiscal year 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of October 29, 2001 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

3. Reclassifications

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

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4. Revenue Recognition and Restatement

The Company previously recognized noncancellable, nonrefundable license fees as revenue when received and when all significant contractual obligations of the Company relating to the fees had been met. On November 1, 1999, the Company changed its method of accounting for noncancellable, nonrefundable license fees to recognize such fees over the research and development period of the agreement, as well as the term of any related supply agreement entered into concurrently with the license when the risk associated with commercialization of a product is non-substantive at the outset of the arrangement. The Company believes the change in accounting principle is preferable based on guidance provided in the Staff Accounting Bulletin ("SAB") No. 101—*Revenue Recognition in Financial Statements.* The $1.9 million cumulative effect of the change in accounting principle, calculated as of November 1, 1999, was originally reported as a charge in the quarter ended October 29, 2000. SAB No. 101 was adopted in accordance with APB No. 20 and accordingly the financial statements for the nine months ended July 30, 2000 have been restated as if the provisions of SAB No. 101 had been applied at the beginning of the year of adoption. The cumulative effect was recorded as deferred revenue and is being recognized as revenue over the research and development period or supply period commitment of the agreement. For the three months and nine months ended July 29, 2001 and July 30, 2000, $93,000 and $280,000, respectively, of the related deferred revenue was recognized as "recycled" revenue.

5. Inventories

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

	July 29, 2001	October 29, 2000
Raw material	$ 7,778	$ 7,661
Finished goods	7,142	5,889
Work in process	1,096	951
	$ 16,016	$ 14,501

6. Revolving Debt and Amendment to Credit Agreement

The $8.1 million increase in the Company's lines of credit during the first nine months of fiscal year 2001 was due to seasonal needs at Landec Ag for seed corn purchases that will be carried over and sold in fiscal year 2002 and for sourcing of produce at Apio, Inc. ("Apio") which requires up-front investments of cash.

In February 2001, the Apio revolving line of credit was amended. The amendment reduced the maximum borrowings from $12.0 million to $10.0 million but increased the computed amount available under the line, determined as a percentage of certain eligible assets (primarily receivables) by $4.0 million through

March 31, 2001 and $2.0 million from April 1, 2001 through July 31, 2001. The amendment also precluded the payment of earn-outs due under the Apio purchase agreement until August 2001.

In February 2001, Dock Resins Corporation ("Dock Resins") increased its line of credit by $1.0 million to pay for building and lab improvements. As of July 29, 2001, $766,000 had been drawn down on the line. The line increase expires in February 2002, accrues interest at libor plus 1.75% or approximately 5.5% as of July 29, 2001. The amount outstanding under the line at February 28, 2002 will be paid off or converted to a term note.

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

For the period ended July 29, 2001, Apio received consents and waivers with respect to non compliance with certain financial covenants contained in its loan agreement with its primary lender. The Company believes it will be in compliance with its debt covenants during the next twelve months.

In May 2001, Apio entered into a capital lease agreement to fund the purchase of an ERP business system. Terms of the agreement are 36 months at an average annual interest rate of 11% with a fair market value buyout at the end of the term. Security for the lease is the hardware portion plus a Letter of Credit ("LOC") equal to 50% of the non-hardware portion of the lease. As of July 29, 2001, $1.6 million had been borrowed under this lease agreement and the LOC balance was $740,000.

In June 2001, Landec Ag increased its line of credit by $2.4 million to $5.4 million through February 2002. In addition, under its equipment line $600,000 was converted into a four-year, 8% per annum term note.

7. Business Segment Reporting

Landec operates in two business segments: the Food Products Technology segment and the Agricultural Seed Technology segment. The Food Products Technology segment markets and packs produce and specialty packaged whole and fresh-cut vegetables that incorporate the Intellipac™ breathable membrane for the retail grocery, club store and food services industry through its Apio subsidiary. The amounts presented for the first nine months of fiscal year 2000 include the results of Apio from the effective close date of November 29, 1999 through July 30, 2000. The Agricultural Seed Technology segment markets and distributes hybrid seed corn to the farming industry and is developing seed coatings using Landec's proprietary Intelimer® polymers. The Food Products Technology and Agricultural Seed Technology segments include charges for corporate services allocated from the Corporate and Other segment. Corporate and other amounts include non-core operating activities, corporate operating costs and net interest expense.

Operations by Business Segment (in thousands):

Quarter ended July 29, 2001	**Food Products Technology**	**Agricultural Seed Technology**	**Corporate and Other**	**TOTAL**
Net sales	$ 46,491	$ 440	$ 3,286	$ 50,217
Gross profit	$ 5,789	$ 88	$ 1,282	$ 7,159
Net income (loss)	$ 55	$ (1,777)	$ 377	$ (1,345)
Quarter ended July 30, 2000				
Net sales	$ 57,363	$ 483	$ 3,649	$ 61,495
Gross profit	$ 7,300	$ 66	$ 1,232	$ 8,598
Net income (loss)	$ 1,355	$ (2,196)	$ 273	$ (568)
Nine months ended July 29, 2001				
Net sales	$ 134,790	$ 16,177	$ 9,608	$ 160,575
Gross profit	$ 14,900	$ 6,657	$ 3,435	$ 24,992
Net income (loss)	$ (2,197)	$ (315)	$ 410	$ (2,102)
Nine months ended July 30, 2000				
Net sales	$ 128,491	$ 17,138	$ 10,620	$ 156,249
Gross profit	$ 14,544	$ 7,195	$ 3,695	$ 25,434
Net income (loss) before cumulative effect of change in accounting principle	$ (485)	$ (173)	$ 357	$ (301)

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the unaudited consolidated financial statements and accompanying notes included in Part I—Item 1 of this Form 10-Q and the audited consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Landec's Annual Report on Form 10-K for the fiscal year ended October 29, 2000.

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 and Exchange Act of 1934. These forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Potential risks and uncertainties include, without limitation, those mentioned in this report and, in particular the factors described below under "Additional Factors That May Affect Future Results," and those mentioned in Landec's Annual Report on Form 10-K for the fiscal year ended October 29, 2000. Landec undertakes no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report.

Overview

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

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

Landec's Agricultural Seed Technology business, operated through its wholly owned subsidiary Landec Ag, combines Landec's proprietary seed coating technology with a unique Fielder's Choice Direct system of selling called eDC™—e-commerce, direct marketing and consultative sales.

In addition to its core businesses, Landec also operates a Technology Licensing/Research and Development Business which licenses products to industry leaders such as Alcon Laboratories, Inc., Nitta Corporation and Hitachi Chemicals. It also engages in research and development activities with companies such as ConvaTec, a division of Bristol-Myers Squibb, and UCB Chemicals Corporation.

To support the polymer manufacturing needs of the core businesses, Landec has developed and acquired lab scale and pilot plant capabilities in Menlo Park, California and scale-up and commercial manufacturing capabilities at its Dock Resins Corporation subsidiary ("Dock Resins") in Linden, New Jersey. In addition to providing manufacturing capabilities, Dock Resins sells industrial specialty products under the Doresco® trademark which are used by more than 300 customers throughout the United States in coatings, printing inks, laminating and adhesives markets.

Landec's core polymer manufacturing products are based on its patented proprietary Intelimer® polymers, which differ from other polymers in that they can be customized to abruptly change their physical characteristics when heated or cooled through a pre-set temperature switch. For instance, Intelimer polymers can change within the space of one or two degrees Celsius from a slick, non-adhesive state to a highly tacky, adhesive state; from an impermeable state to a highly permeable state; or from a solid state to a viscous state. These abrupt changes are repeatedly reversible and can

be tailored by Landec to occur at specific temperatures, thereby offering substantial competitive advantages in Landec's target markets.

Based on this core technology, Landec has launched to date four broad product lines—QuickCast™ splints and casts in April 1994, which was subsequently sold to Bissell Healthcare Corporation in August 1997; Intellipac™ breathable membranes for the fresh-cut produce packaging market beginning in September 1995; Intelimer polymer systems for the industrial specialties market beginning in June 1997; and Intellicoat® coatings for inbred corn seed beginning in October 1999.

Landec has been unprofitable during each fiscal year since its inception and may incur additional losses in the future. The amount of future net profits, if any, is highly uncertain and there can be no assurance that Landec will be able to reach or sustain profitability for an entire fiscal year. From inception through July 29, 2001, Landec's accumulated deficit was $51.6 million.

Results of Operations

Total revenues were $50.2 million for the third quarter of fiscal year 2001, compared to $61.5 million for the third quarter of fiscal year 2000. Revenues from product sales and services decreased to $50.0 million in the third quarter of fiscal year 2001 from $61.3 million in the third quarter of fiscal year 2000. The decrease in product sales and service revenues was primarily due to decreased revenues for Apio's "fee for service" whole produce business which decreased from $26.0 million in the third quarter of fiscal year 2000 to $14.6 million during the same period of fiscal year 2001 and from Apio's low margin commission trading business which decreased from $15.7 million in the third quarter of fiscal year 2000 to $13.9 million in the third quarter this year. The decrease in the "fee-for-service" whole produce business is primarily due to the Company's decision to exit the cash, labor and equipment-intensive field harvesting and packing operations of its "fee-for-service" business, which resulted in decreased volumes during the transition period. Volumes in the "fee-for-service" business are expected to be down in the foreseeable future as the Company focuses on higher margin, less cash intensive aspects of its businesses. The decreases in Apio's "fee-for-service" and commission trading businesses were partially offset by an increase in Apio's value-added specialty packaging business which increased to $18.0 million in the third quarter of fiscal year 2001 from $15.6 million in the same period in fiscal year 2000. Revenues from research and development funding were $147,000 for third quarter of fiscal year 2001 compared to $117,000 for the third quarter of fiscal year 2000. Revenues from license fees remained unchanged at $93,000 for the third quarter of fiscal years 2001 and 2000. For the first nine months of fiscal year 2001 total revenues were $160.6 million compared to $156.2 million during the same period in 2000, the increase was primarily due to the growth in the Company's technology-based product sales partially offset by a decrease in service revenues. Revenues from product sales and services for the first nine months of fiscal year 2001 increased to $159.9 million from $155.6 million during the same period of fiscal year 2000 due primarily to including the results of Apio for a full nine months in fiscal year 2001 versus only eight months in fiscal year 2000 and due to growth in the Company's technology-based product sales partially offset by a decrease in service revenues. Revenues from research and development funding for the first nine months of fiscal year 2001 decreased to $376,000 from $391,000 during the same period of fiscal year 2000. Revenues from licensing fees remained unchanged at $280,000 for the nine month period of fiscal years 2001 and 2000.

Cost of product sales and services consists of material, labor and overhead. Cost of product sales and services was $43.1 million for the third quarter of fiscal year 2001 compared to $52.9 million for the third quarter of fiscal year 2000. Gross profit from product sales and services as a percentage of revenue from product sales and services remained unchanged at 14% in the third quarter of fiscal years 2000 and 2001. Cost of product sales and services for the first nine months of fiscal year 2001 was $135.6 million compared to $130.8 million during the same period in fiscal year 2000. Gross profit from product sales and services as a percentage of revenue from product sales and services decreased to

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15% for the first nine months of fiscal year 2001 from 16% during the same period of fiscal year 2000. The decrease in the gross profit percentage for the first nine months of fiscal year 2001 compared to the same period in fiscal year 2000 was primarily the result of Apio's higher costs during fiscal year 2001 associated with sourcing crops during the winter months. Overall gross profit decreased from $8.6 million for the three month period ended July 30, 2000 to $7.2 million for the same period of fiscal year 2001. This decrease was due primarily to lower margins on lower Apio service revenues during the third quarter of fiscal year 2001 as compared to the year ago third quarter. For the nine month period ended July 29, 2001, gross profits decreased from $25.4 million in fiscal year 2000 to $25.0 million for the same period in fiscal year 2001, a decrease of 2% for the first nine months of fiscal year 2001 compared to the same period in fiscal year 2000. This decrease is primarily due to lower margins on decreased sales at Landec Ag, lower margins on decreased service revenues at Apio and Apio's increased farming losses from winter season produce sourcing in the desert partially offset by higher gross profits from Apio's value-added fresh-cut business.

Research and development expenses remained the same at $1.2 million for the third quarter of fiscal years 2001 and 2000. Research and development expenses also remained virtually flat at $3.4 million for the first nine months of fiscal year 2001 compared to $3.3 million for the first nine months of fiscal year 2000. Landec's research and development expenses consist primarily of expenses related to new product development, process scale-up work, and investments in patents to protect intellectual property content of Landec's enabling side chain crystallizable polymers.

Selling, general and administrative expenses were $6.7 million for the third quarter of fiscal year 2001 compared to $7.5 million for the third quarter of fiscal year 2000, a decrease of 10%. For the first nine months of fiscal year 2001 selling, general and administrative expenses were $22.2 million compared to $21.4 million during the same period in fiscal year 2000, an increase of 4%. Selling, general and administrative expenses consist primarily of sales and marketing expenses associated with Landec's product sales and services, business development expenses, and staff and administrative expenses. Selling, general and administrative expenses decreased during the three month period ended July 29, 2001 as compared to the same period of fiscal year 2000 primarily as a result of decreased expenses at Landec Ag after a February 2001 reduction in force and because of decreased sales and marketing expenses at Apio. The increase in selling, general and administrative expense during the nine month period ended July 29, 2001 as compared to the same period of fiscal year 2000 results from including Apio for a full nine months in fiscal year 2001 compared to only eight months in fiscal year 2000. Sales and marketing expenses decreased to $2.9 million for the third quarter of fiscal year 2001 from $3.2 million for the third quarter of fiscal year 2000. For the first nine months of fiscal year 2001 sales and marketing expenses decreased to $9.0 million from $9.7 million during the same period of fiscal year 2000.

Interest income for the three and nine month periods ended July 29, 2001 was $175,000 and $485,000, respectively, compared to $265,000 and $681,000 for the same periods of fiscal year 2000. These decreases in interest income were due principally to less cash available for investing. Interest expense for the three and nine months periods ended July 29, 2001 was $744,000 and $2.1 million, respectively, compared to $613,000 and $1.7 million for the same periods of fiscal year 2000. The increases in interest expense were due to having Apio debt for a full nine months in fiscal year 2001 versus only eight months in fiscal year 2000 and having a higher average debt balance outstanding.

Liquidity and Capital Resources

As of July 29, 2001, Landec had cash and cash equivalents of $5.5 million, a net decrease of $4.1 million from $9.6 million as of October 29, 2000. This decrease was primarily due to the net of: a) cash used in operations of $6.6 million; b) the purchase of $7.2 million of property, plant and equipment, partially offset by; c) borrowings net of repayments of $8.3 million and; d) collections of notes receivable and advances of $2.3 million.

During the first nine months of fiscal year 2001, Landec purchased equipment to support the development of Apio's value added products, and incurred building and laboratory improvement and equipment upgrade expenditures at Dock Resins and initiated implementation of a new ERP business system at Apio. These expenditures represented the majority of the $7.2 million of property and equipment purchased during the first nine months of fiscal year 2001.

In November 1999 the Company raised $10 million upon the sale of Preferred Stock ($9.1 million net of issuance costs). In December 1999, in conjunction with the acquisition of Apio, the Company secured $11.25 million of term debt and a $12 million line of credit with Bank of America. The term debt and line of credit agreements ("Loan Agreement") contain restrictive covenants that require Apio to meet certain financial tests, including minimum fixed charge coverage ratio, minimum current ratio, minimum adjusted net worth and maximum leverage ratios. As of July 29, 2001 Apio was not in compliance with two of these financial covenants and received consents and waivers with respect to the non compliance from Bank of America for the period ended July 29, 2001. These requirements and ratios generally become more restrictive over time. The Loan Agreement, through restricted payment covenants, limits the ability of Apio to make cash payments to Landec, until the outstanding balance is reduced to an amount specified in the Loan Agreement. In February 2001, April 2001 and September 2001, the Apio revolving line of credit was amended. The amendments adjusted the minimum ratios required to meet the fixed charge coverage and leverage ratios and increased the computed amount available under the line ("overline"), determined as a percentage of certain eligible assets (primarily receivables) by (1) $3.0 million through October 1, 2001 (2) $2 million through November 1, 2001 and, (3) $1 million through December 1, 2001 and would eliminate the overline entirely by December 2, 2001. The amendment also precludes the payment of earn-outs due under the Apio purchase agreement until December 2001.

In May 2001, Apio entered into a capital lease agreement to fund the purchase of a new ERP business system. As of July 29, 2001, $1.6 million of the estimated $2.3 million in total costs had been financed. In June 2000, Landec Ag established a $3.0 million bank line of credit for working capital needs based on inventory values and a $1.0 million equipment line of credit to be used to fund the expansion of the manufacturing capabilities of Intellicoat seed coating products. In June 2001, Landec Ag's line of credit was increased by $2.4 million to $5.4 million through February 2002. As of July 29, 2001, $4.2 million was outstanding under Landec Ag's line of credit. Under the $1.0 million equipment line, $600,000 of equipment was purchased and in June 2001 that $600,000 was converted to a four-year, 8% per annum, term note. In February 2001, Dock Resins increased its line of credit by $1.0 million to pay for building and lab improvements. As of July 29, 2001, $766,000 had been borrowed under this increased line amount.

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

Additional Factors That May Affect Future Results

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

We Have a History of Losses Which May Continue

Landec has incurred net losses in each fiscal year since its inception. Landec's accumulated deficit as of July 29, 2001 totaled $51.6 million. Landec may incur additional losses in the future. The amount of future net profits, if any, is highly uncertain and there can be no assurance that Landec will be able to reach or sustain profitability for an entire fiscal year.

Our Substantial Indebtedness Could Limit Our Financial and Operating Flexibility

At July 29, 2001, Landec's total debt, including current maturities and capital lease obligations, was approximately $38.1 million and the total debt to equity ratio was approximately 75%. This level of indebtedness could have significant consequences because a substantial portion of Landec's net cash flow from operations must be dedicated to debt service and will not be available for other purposes, Landec's ability to obtain additional debt financing in the future for working capital, capital expenditures or acquisitions may be limited, and Landec's level of indebtedness may limit its flexibility in reacting to changes in the industry and economic conditions generally.

In connection with the Apio acquisition, Landec may be obligated to make future payments to the former stockholders of Apio of up to $15.0 million for a performance based earnout and future supply of produce. Of this amount, $4.1 million relates to the earn out from fiscal year 2000 that is due to be paid in December 2001.

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

Apio is subject to various financial and operating covenants under its term debt and line of credit facilities, including minimum fixed charge coverage ratio, minimum current ratio, minimum adjusted net worth and maximum leverage ratios. These requirements and ratios generally become more restrictive over time. As of July 29, 2001, Apio was not in compliance with two of the financial covenants. The Company received a waiver for non-compliance from its bank and the Loan Agreement was amended to make certain of the covenants less restrictive. The Loan Agreement limits the ability of Apio to make cash payments to Landec until the outstanding balance is reduced to an amount specified in the Loan Agreement. Landec Ag and Dock Resins are subject to certain restrictive covenants in their loan agreements which limit the ability of Landec Ag and Dock Resins to make payments on debt owed to Landec. Landec has pledged substantially all of Apio's, Landec Ag's and Dock Resins' assets to secure their bank debt. Landec's failure to comply with the obligations under the loan agreements, including maintenance of financial ratios, could result in an event of default, which, if not cured or waived, would permit acceleration of the indebtedness due under the loan agreements.

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

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

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

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

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

We Face Competition in the Marketplace

Competitors may succeed in developing alternative technologies and products that are more effective, easier to use or less expensive than those which have been or are being developed by Landec or that would render Landec's technology and products obsolete and non-competitive. Landec operates in highly competitive and rapidly evolving fields, and new developments are expected to continue at a rapid pace. Competition from large food products, agricultural, industrial and medical companies is expected to be intense. In addition, the nature of Landec's collaborative arrangements may result in its

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corporate partners and licensees becoming competitors of Landec. Many of these competitors have substantially greater financial and technical resources and production and marketing capabilities than Landec, and may have substantially greater experience in conducting clinical and field trials, obtaining regulatory approvals and manufacturing and marketing commercial products.

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

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

Although Landec believes Dock Resins will provide Landec with practical knowledge in the scale-up of Intelimer polymer products, production in commercial-scale quantities may involve technical challenges for Landec. Landec anticipates that a portion of its products will be manufactured in the Linden, New Jersey facility acquired in the purchase of Dock Resins. Landec's reliance on this facility involves a number of potential risks, including the unavailability of, or interruption in access to, some process technologies and reduced control over delivery schedules, and low manufacturing yields and high manufacturing costs. In February 2000, Dock Resins had a fire in its research and development laboratory in Linden, New Jersey which hindered its ability to develop new products and samples for potential and existing customers. The laboratory has been rebuilt and became fully operational in June 2001.

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

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

We May be Unable to Adequately Protect Our Intellectual Property Rights

Landec has received, and may in the future receive, from third parties, including some of its competitors, notices claiming that it is infringing third party patents or other proprietary rights. If Landec were determined to be infringing any third-party patent, Landec could be required to pay damages, alter its products or processes, obtain licenses or cease the infringing activities. If Landec is required to obtain any licenses, there can be no assurance that Landec will be able to do so on commercially favorable terms, if at all. Litigation, which could result in substantial costs to and diversion of effort by Landec, may also be necessary to enforce any patents issued or licensed to Landec or to determine the scope and validity of third-party proprietary rights. Any litigation or interference proceeding, regardless of outcome, could be expensive and time consuming and could

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subject Landec to significant liabilities to third parties, require disputed rights to be licensed from third parties or require Landec to cease using that technology. Landec's success depends in large part on its ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. There can be no assurance that any pending patent applications will be approved, that Landec will develop additional proprietary products that are patentable, that any patents issued to Landec will provide Landec with competitive advantages or will not be challenged by any third parties or that the patents of others will not prevent the commercialization of products incorporating Landec's technology. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of Landec's products or design around Landec's patents.

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

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, including those utilized by Dock Resins. As a result of historic off-site disposal practices, Dock Resins was involved in two actions seeking to compel the generators of hazardous waste to remediate hazardous waste sites. Dock Resins has been informed by its counsel that it was a *de minimis* generator to these sites, and these actions have been settled without the payment of any material amount by Landec. In addition, the New Jersey Industrial Site Recovery Act ("ISRA") requires an investigation and remediation of any industrial establishment, like Dock Resins, which changes ownership. This statute was activated by Landec's acquisition of Dock Resins. Dock Resins has completed its investigation of the site, delineated the limited areas of concern on the site, and completed the bulk of the active remediation required under the statute. The costs associated with this effort are being borne by the former owner of Dock Resins, and counsel has advised Dock Resins and Landec that funds of the former owner required by ISRA to be set aside for this effort are sufficient to pay for the successful completion of remedial activities at the site. In most cases, Landec believes its liability will be limited to sharing clean-up or other remedial costs with other potentially responsible parties. Any failure by Landec to control the use of, or to restrict adequately the discharge of, hazardous substances under present or future regulations could subject it to substantial liability or could cause its manufacturing operations to be suspended and changes in environmental regulations may impose the need for additional capital equipment or other requirements.

Landec's agricultural operations are subject to a variety of environmental laws including the Food Quality Protection Act of 1966, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Federal Insecticide, Fungicide and Rodenticide Act and the Comprehensive Environmental Response, Compensation and Liability Act. Compliance with these laws and related regulations is an ongoing process. Environmental concerns are, however, inherent in most agricultural operations, including those conducted by Landec, and there can be no assurance that the cost of compliance with environmental laws and regulations will not be material. Moreover, it is possible that future developments, such as increasingly strict environmental laws and enforcement policies and further restrictions on the use of manufacturing chemicals could result in increased compliance costs.

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

Landec's Food Products and Agricultural Seed Technology businesses are subject to weather conditions that affect commodity prices, crop yields, and decisions by growers regarding crops to be planted. Crop diseases and severe conditions, particularly weather conditions such as floods, droughts, frosts, windstorms and hurricanes may adversely affect the supply of vegetables and fruits used in Landec's business, which could reduce the sales volumes and/or increase the unit production costs. During the first quarter of fiscal year 2001, optimal weather conditions after the November/December

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freezes resulted in an over supply of certain crops in which the Company had an invested interest. The over supply resulted in reduced prices for these crops which caused the Company to report a loss on its investment during the first six months of fiscal year 2001. Because a significant portion of the costs are fixed and contracted in advance of each operating year, volume declines due to production interruptions or other factors could result in increases in unit production costs which could result in substantial losses and weaken Landec's financial condition.

We Depend on Strategic Partners and Licenses for Future Development

For some of its current and future products, Landec's strategy for development, clinical and field testing, manufacture, commercialization and marketing includes entering into various collaborations with corporate partners, licensees and others. Landec is dependent on its corporate partners to develop, test, manufacture and/or market some of its products. Although Landec believes that its partners in these collaborations have an economic motivation to succeed in performing their contractual responsibilities, the amount and timing of resources to be devoted to these activities are not within the control of Landec. There can be no assurance that those partners will perform their obligations as expected or that Landec will derive any additional revenue from the arrangements. There can be no assurance that Landec's partners will pay any additional option or license fees to Landec or that they will develop, market or pay any royalty fees related to products under the agreements. Moreover, some of the collaborative agreements provide that they may be terminated at the discretion of the corporate partner, and some of the collaborative agreements provide for termination under other circumstances. In addition, there can be no assurance as to the amount of royalties, if any, on future sales of QuickCast and PORT products as Landec no longer has control over the sales of those products since the sale of QuickCast and the license of the PORT product lines. There can be no assurance that Landec's partners will not pursue existing or alternative technologies in preference to Landec's technology. Furthermore, there can be no assurance that Landec will be able to negotiate additional collaborative arrangements in the future on acceptable terms, if at all, or that the collaborative arrangements will be successful.

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

Landec's products and operations are subject to governmental regulation in the United States and foreign countries. The manufacture of Landec's products is subject to periodic inspection by regulatory authorities. There can be no assurance that Landec will be able to obtain necessary regulatory approvals on a timely basis or at all. Delays in receipt of or failure to receive approvals or loss of previously received approvals would have a material adverse effect on Landec's business, financial condition and results of operations. Although Landec has no reason to believe that it will not be able to comply with all applicable regulations regarding the manufacture and sale of its products and polymer materials, regulations are always subject to change and depend heavily on administrative interpretations and the country in which the products are sold. There can be no assurance that future changes in regulations or interpretations relating to matters such as safe working conditions, laboratory and manufacturing practices, environmental controls, and disposal of hazardous or potentially hazardous substances will not adversely affect Landec's business. There can be no assurance that Landec will not be required to incur significant costs to comply with the laws and regulations in the future, or that the laws or regulations will not have a material adverse effect on Landec's business, operating results and financial condition. As a result of the Apio acquisition, Landec is subject to USDA rules and regulations concerning the safety of the food products handled and sold by Apio, and the facilities in which they are packed and processed. Failure to comply with the applicable regulatory requirements can, among other things, result in fines, injunctions, civil penalties, suspensions or withdrawal of regulatory approvals, product recalls, product seizures, including cessation of manufacturing and sales, operating restrictions and criminal prosecution.

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

For the first nine months of fiscal year 2001, approximately 16% of Landec's total revenues were derived from product sales to and collaborative agreements with international customers. Landec expects that with the acquisition of Apio and its export business, international revenues will become an important component of its total revenues. A number of risks are inherent in international transactions. International sales and operations may be limited or disrupted by the regulatory approval process, government controls, export license requirements, political instability, price controls, trade restrictions, changes in tariffs or difficulties in staffing and managing international operations. Foreign regulatory agencies have or may establish product standards different from those in the United States, and any inability to obtain foreign regulatory approvals on a timely basis could have a material adverse effect on Landec's international business and its financial condition and results of operations. While Landec's foreign sales are currently priced in dollars, fluctuations in currency exchange rates, such as those recently experienced in many Asian countries, may reduce the demand for Landec's products by increasing the price of Landec's products in the currency of the countries to which the products are sold. There can be no assurance that regulatory, geopolitical and other factors will not adversely impact Landec's operations in the future or require Landec to modify its current business practices.

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

During the nine months ended July 29, 2001, sales to Landec's top five customers accounted for approximately 42% of Landec's revenues, with the top customer accounting for 14% of Landec's revenues. Landec expects that for the foreseeable future a limited number of customers may continue to account for a substantial portion of its net revenues. Landec may experience changes in the composition of its customer base, as Apio, Dock Resins and Landec Ag have experienced in the past. Landec does not have long-term purchase agreements with any of its customers. The reduction, delay or cancellation of orders from one or more major customers for any reason or the loss of one or more of the major customers could materially and adversely affect Landec's business, operating results and financial condition. In addition, since some of the products manufactured in the Linden, New Jersey facility or processed by Apio at its Guadalupe, California facility are often sole sourced to its customers, Landec's operating results could be adversely affected if one or more of its major customers were to develop other sources of supply. There can be no assurance that Landec's current customers will continue to place orders, that orders by existing customers will not be canceled or will continue at the levels of previous periods or that Landec will be able to obtain orders from new customers.

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

The testing, manufacturing, marketing, and sale of the products being developed by Landec involve an inherent risk of allegations of product liability. While no product liability claims have been made against Landec to date, if any product liability claims were made and adverse judgments obtained, they could have a material adverse effect on Landec's business, operating results and financial condition. Although Landec has taken and intends to continue to take what it believes are appropriate precautions to minimize exposure to product liability claims, there can be no assurance that it will avoid significant liability. Landec currently maintains medical and non-medical product liability insurance with limits in the amount of $4.0 million per occurrence and $5.0 million in the annual aggregate. In addition, Apio has product liability insurance with limits in the amount of $41.0 million per occurrence and $42.0 million in the annual aggregate. There can be no assurance that the coverage is adequate or will continue to be available at an acceptable cost, if at all. A product liability claim, product recall or other claim with respect to uninsured liabilities or in excess of insured liabilities could have a material adverse effect on Landec's business, operating results and financial condition.

Our Stock Price May Fluctuate in Accordance with Market Conditions

Factors such as announcements of technological innovations, the attainment of (or failure to attain) milestones in the commercialization of Landec's technology, new products, new patents or changes in existing patents, the acquisition of new businesses or the sale or disposal of a part of Landec's businesses, or development of new collaborative arrangements by Landec, its competitors or other parties, as well as government regulations, investor perception of Landec, fluctuations in Landec's operating results and general market conditions in the industry may cause the market price of Landec's common stock to fluctuate significantly. In addition, the stock market in general has recently experienced extreme price and volume fluctuations, which have particularly affected the market prices of technology companies and which have been unrelated to the operating performance of technology companies. These broad fluctuations may adversely affect the market price of Landec's common stock.

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

In order to address deficiencies in Apio's management information systems and accounting systems, Apio has restructured its financial and accounting department, including hiring a chief financial officer and a new controller, and retained consultants who have worked with Apio to improve accounting processes and procedures. Apio management believes that those changes will improve its managing of operations, including delivering complete and accurate financial statements to Landec's corporate offices in a more timely manner. However, Landec can give no assurances that it will be able to effect those changes in the management information systems and accounting systems in a timely manner or sustain the process improvements over time.

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

There has been no material change in the Company's reported market risks since the end of fiscal year 2000.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

None.

(b) Reports on Form 8-K

None

SIGNATURES

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

LANDEC CORPORATION

By: /s/ GREGORY S. SKINNER

Gregory S. Skinner
Vice President, Finance and Chief Financial Officer (Duly Authorized and Principal Financial and Accounting Officer)

Date: September 12, 2001

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