TECHNOLOGY THAT MAKES
A DIFFERENCE YOU CAN SEE.

LANDEC 2006 AR


BreatheWay
Extends Freshness Naturally


Eat Smart
Carrot Crunch
fresh salads


LANCÔME
PRIMORDIALE
OPTIMUM
LANCÔME
PARIS

DEAR SHAREHOLDERS,

Fiscal year 2006 was a noteworthy year for Landec with the achievement of significant milestones. We grew our revenues to a record $232 million from $205 million in the prior year. We reported the most profitable fiscal year in our history by generating $8.7 million in net income, 60% above the prior year results, while generating $11 million in cash flow from operations. We ended the year with $20.5 million in cash, up from $12.9 million from the prior year and we now have virtually no long-term debt.

Our specialty packaging fresh-cut produce subsidiary, Apio, Inc., had an excellent year. During the year, Apio sold over 100 specialty packaged fresh-cut produce food items under our Eat Smart® brand to U.S. retail grocery and club store chains. Year-over-year Apio sales of value-added products increased 13% to $136 million. We continue to be the number one specialty packaged fresh-cut vegetable supplier in the U.S. and our specialty packaged vegetable tray products represent 46% of the total U.S. market.

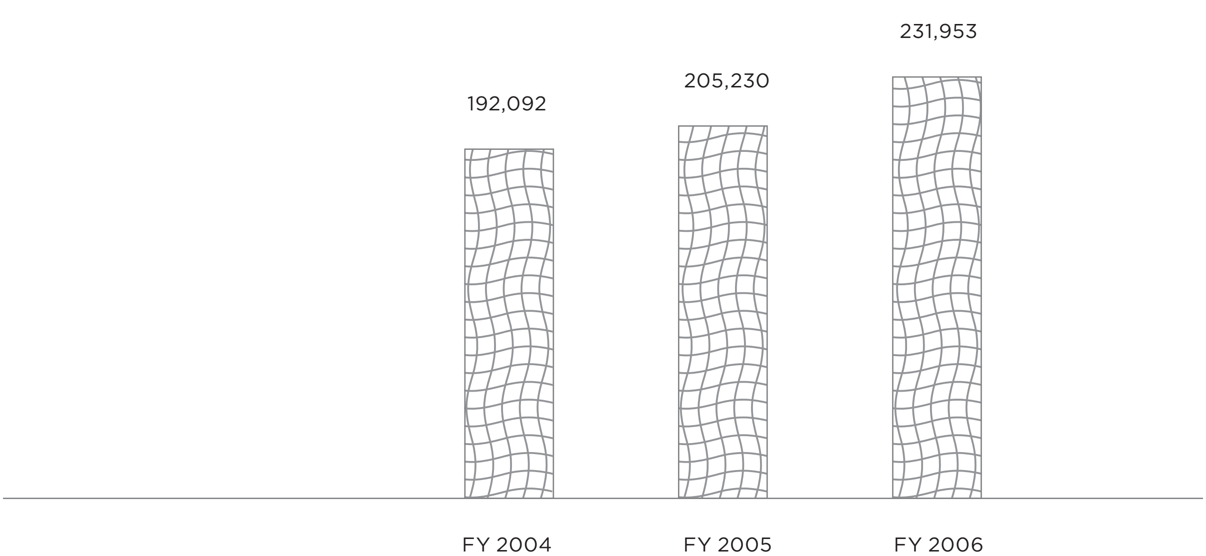
Apio's food packaging division, Apio Tech, began fiscal year 2006 with initiatives for new products based on our proprietary BreatheWay™ packaging technology to extend the shelf-life of produce. Apio Tech's initial focus is on commercializing BreatheWay banana packaging technology with our partner, Chiquita Brands International. During this past year, Landec and Chiquita demonstrated with customers the ability to extend the shelf-life of bananas by at least five days. Our BreatheWay technology opens new markets for bananas which include convenience stores, coffee chains, quick serve food retailers and drug stores—locations that have traditionally not sold bananas due to their relatively short shelf-life. In February 2006, we announced that Chiquita and Core-Mark International, one of the largest North American distributors to the convenience retail industry, entered into an arrangement to distribute Chiquita bananas using our BreatheWay packaging technology to convenience stores throughout the Core-Mark network. Chiquita and Core-Mark intend to expand the commercial sale of BreatheWay packaged Chiquita bananas to more than 7,500 retail locations by calendar year-end 2006. Landec intends to significantly expand the use of its BreatheWay technology over the next two years with additional partners.

During the past year, Landec completed several strategic transactions to support the goal of expanding future growth. In August of 2005, Landec's seed subsidiary Landec Ag, Inc., acquired the assets of Heartland Hybrids, Inc., of Dassel, Minnesota, which increased our farmer customer base by nearly 30% and our seed revenues by over 30%. The acquisition of Heartland allows us to better serve the northern Corn Belt and strengthens our position as the leading direct marketer of seed-based products in the U.S.

In December of 2005, we entered into an exclusive agreement with a medical device company. This agreement resulted in $1.6 million of license fee revenues in fiscal year 2006 plus a 19.9% ownership position in this newly established company.

In March of 2006, we entered into a worldwide exclusive licensing agreement with Air Products and Chemicals, Inc., a leading specialty chemical and performance materials company, with $8 billion in annual revenues. This new relationship is designed to accelerate Landec's business opportunities for our proprietary Intelimer® polymer materials in markets that include personal care products, catalysts, and household/industrial cleaners.

Revenues (in 000):



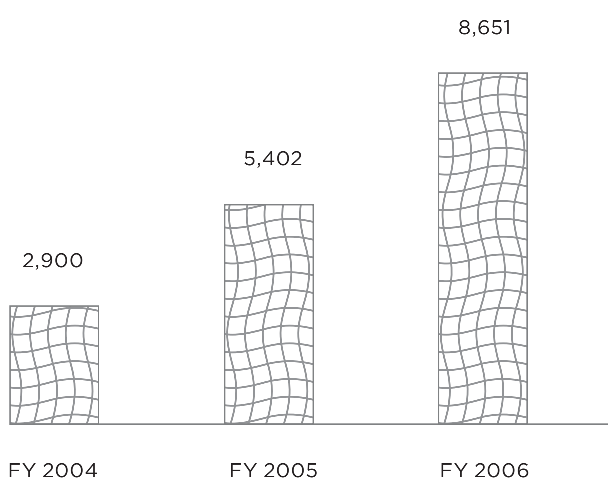
We are focused on five important milestones for building shareholder value over the next several years: (1) continue to grow revenues, profits and cash flow (2) extend the commercialization of our banana packaging program with Chiquita for use by nationally known chains (3) commercialize new uses of our BreatheWay packaging technology for food products (4) continue to grow our seed business and, (5) enter into new licensing arrangements for our proprietary Intelimer polymer materials.

We are grateful to our employees for their ongoing efforts to creatively and profitably grow our businesses. In addition, we greatly appreciate the ongoing support of you, our shareholders.

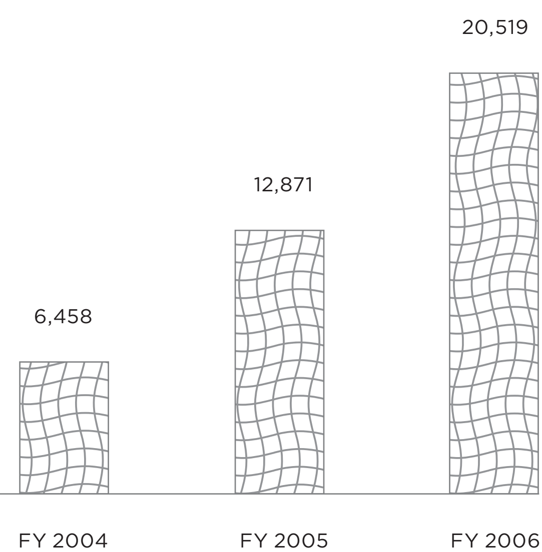
Respectfully,

Gary T. Steele
President and CEO

Net Income (in 000):



Cash Balances at YE (in 000)



2006 MILESTONES:

Apio, Inc.—Landec's Food Subsidiary:

- With Chiquita® Brand bananas—entered into an arrangement with Core-Mark International to distribute Chiquita bananas using our packaging technology to convenience stores throughout the Core-Mark network with the goal of being in at least 7,500 locations by calendar year end 2006.
- Increased overall revenues by 9% to $194.8 million and net income by 62% to $9.1 million compared to fiscal year 2005.
- Increased value-added revenues by 13% to $136.1 million compared to the prior year.
- Increased value-added gross profits by 21% compared to last year.
- Increased the retail vegetable tray product line and the 12-ounce specialty packaged retail product line revenues by 22% and 16%, respectively, compared to fiscal year 2005.
- Initiated further expansion of Apio's value-added facility for additional space and operating efficiencies.
- Generated $12.7 million of cash flow from Apio operations during fiscal year 2006.

Landec Ag—Landec's Agricultural Seed Subsidiary:

- Purchased Heartland Hybrids, Inc., the second largest direct marketer of seed corn to farmers behind Landec Ag's Fielder's Choice Direct® brand.
- Increased overall Ag revenues by 33% to $34.1 million and gross profits by 10% to $10.4 million and, despite a very difficult year in the seed corn industry, managed to generate operating income of $353,000.
- Based upon third party studies for the past three years, Early Plant® corn increased yields on average by 21 bushels per acre when compared to late planted corn and reduced dry down cost by nearly $15 per acre compared to late planted corn resulting in an overall increase in profit to the farmer of $49 per acre.
- Introduced 37 new corn hybrids for 2006, bringing the line-up to 121 hybrid seed varieties it currently has for sale, including 48 hybrid offerings that will be using Early Plant Intellicoat® seed coating technology.

Landec Consolidated:

- Increased overall Landec revenues by 13% to $232.0 million, gross profits by 25% to $40.0 million and net income by 60% to $8.7 million. In addition, Landec improved its overall gross margin by 1.7 percentage points to 17.3% compared to fiscal year 2005.
- Entered into a new licensing and research and development agreement with Air Products in which the Company has received $900,000 in licensing payments and will receive up to an additional $1.6 million, for a total of $2.5 million in licensing payments. In addition, the Company will receive 40% of gross profits realized starting March 14, 2007 from the sale of Landec's Intelimer-based products by Air Products.
- Improved Company-wide net interest income by $381,000 compared to fiscal year 2005.
- Entered into a new licensing agreement with a newly established medical device company in which Landec received an upfront licensing payment of $250,000. In addition, the Company received preferred stock initially valued at $1.3 million which represents a 19.9% ownership interest in the medical device company. Landec will also receive royalties on future product sales.
- Invested $4.7 million in capital expenditures to support future growth and advance operating efficiencies.

LANDEC
INTELLIGENT MATERIALS

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON OCTOBER 12, 2006

TO THE SHAREHOLDERS OF LANDEC CORPORATION:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Landec Corporation (the "Company") will be held on Thursday, October 12, 2006, at 1:30 p.m., local time, at the Seaport Conference Center, 459 Seaport Court, Redwood City, CA 94063 for the following purposes:

1. To elect four directors to serve for a term expiring at the Annual Meeting of Shareholders held in the second year following the year of their election and until their successors are duly elected and qualified;

2. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending May 27, 2007; and

3. To transact such other business as may properly come before the meeting or any postponement or adjournment(s) thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Only shareholders of record at the close of business on August 21, 2006, are entitled to notice of and to vote at the meeting and any adjournment(s) thereof.

All shareholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, you are urged to mark, sign, date and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose or vote your shares by telephone or via the Internet.

BY ORDER OF THE BOARD OF DIRECTORS

Geoffrey Leonard

GEOFFREY P. LEONARD
Secretary

Menlo Park, California
September 1, 2006

IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE OR VOTE YOUR SHARES BY TELEPHONE OR VIA THE INTERNET. IF A QUORUM IS NOT REACHED, THE COMPANY WILL HAVE THE ADDED EXPENSE OF RE-ISSUING THESE PROXY MATERIALS. IF YOU ATTEND THE MEETING AND SO DESIRE, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON. THANK YOU FOR ACTING PROMPTLY.

LANDEC
INTELLIGENT MATERIALS

PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON OCTOBER 12, 2006

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The enclosed proxy is solicited on behalf of the Board of Directors of Landec Corporation (''Landec'' or the ''Company''), a California corporation, for use at the Annual Meeting of Shareholders to be held on Thursday, October 12, 2006, at 1:30 p.m., local time, or at any postponement or adjournment(s) thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Shareholders. The Annual Meeting will be held at the Seaport Conference Center, 459 Seaport Court, Redwood City, CA 94063. The telephone number at that location is (650) 482-3500.

The Company's principal executive offices are located at 3603 Haven Avenue, Menlo Park, California 94025. The Company's telephone number at that location is (650) 306-1650.

Solicitation

These proxy solicitation materials were mailed on or about September 1, 2006, to all shareholders entitled to vote at the meeting. The costs of soliciting these proxies will be borne by the Company. These costs will include the expenses of preparing and mailing proxy materials for the Annual Meeting and the reimbursement of brokerage firms and others for their expenses incurred in forwarding solicitation material regarding the Annual Meeting to beneficial owners of the Company's Common Stock. The Company may conduct further solicitation personally, telephonically or by facsimile through its officers, directors and regular employees, none of whom will receive additional compensation for assisting with the solicitation.

The Company will provide a copy of the Company's Annual Report on Form 10-K for the fiscal year ended May 28, 2006, including financial statements and financial statement schedules (but not exhibits), without charge to each shareholder upon written request to Gregory S. Skinner, Chief Financial Officer, Landec Corporation, 3603 Haven Avenue, Menlo Park, CA 94025 (telephone number: (650) 306-1650). Exhibits to the Annual Report may be obtained upon written request to Mr. Skinner and payment of the Company's reasonable expenses in furnishing such exhibits. The Company's Annual Report on Form 10-K is also available on the Security and Exchange Commission's website, at www.sec.gov.

Voting Procedure

You may vote by mail

To vote by mail, please sign your proxy card and return it in the enclosed, prepaid and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct.

You may vote in person at the Annual Meeting

We will pass out written ballots to anyone who wants to vote at the Annual Meeting. Holding shares in ''street name'' means your shares of stock are held in an account by your stockbroker, bank or other nominee, and the stock certificates and record ownership are not in your name. If your shares are held in ''street name'' and you wish to attend the Annual Meeting, you must notify your broker, bank or other nominee and obtain proper documentation to vote your shares at the Annual Meeting.

You may vote by telephone or electronically

You may submit your proxy by following the Vote by Phone instructions on the proxy card. If you have Internet access, you may submit your proxy from any location in the world by following the Vote by Internet instructions on the proxy card.

You may change your mind after you have returned your proxy card

If you change your mind after you return your proxy card or submit your proxy by telephone or Internet, you may revoke your proxy at any time before the polls close at the Annual Meeting. You may do this by:

- signing another proxy card with a later date, or
- voting in person at the Annual Meeting.

Voting

Holders of Common Stock are entitled to one vote per share.

Votes cast in person or by proxy at the Annual Meeting will be tabulated by the Inspector of Elections. The Inspector of Elections will also determine whether or not a quorum is present. A majority of the shares entitled to vote, represented either in person or by proxy, will constitute a quorum for transaction of business. Except with respect to the election of directors, the affirmative vote of a majority of shares represented and voting at a duly held meeting at which a quorum is present is required for approval of proposals presented to shareholders. In addition, the shares voting affirmatively must also constitute at least a majority of the required quorum. The Inspector of Elections will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence of a quorum and in determining the approval of any matter submitted to shareholders for a vote. Accordingly, abstentions will have the same effect as a vote against a proposal. Any proxy which is returned using the form of proxy enclosed and which is not marked as to a particular item will be voted FOR election of the director nominees proposed by the Board of Directors, FOR the ratification of the appointment of Ernst & Young LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending May 27, 2007, and as the proxy holders deem advisable on other matters that may come before the meeting, as the case may be, with respect to the item not marked. If a broker indicates on the enclosed proxy or its substitute that it does not have discretionary authority as to certain shares to vote on a particular matter ("broker non-votes"), those shares will be counted for purposes of determining the presence of a quorum, but will not be considered as voting with respect to that matter.

Record Date and Share Ownership

Only shareholders of record at the close of business on August 21, 2006, are entitled to notice of and to vote at the Annual Meeting. As of August 21, 2006, 24,989,192 shares of the Company's Common Stock, par value $0.001 per share, were issued and outstanding.

Deadline for Receipt of Shareholder Proposals for the Company's Annual Meeting of Shareholders in 2007

Proposals of shareholders of the Company that are intended to be presented by such shareholders at the Company's 2007 Annual Meeting of Shareholders must be received by the Chief Financial Officer of the Company no later than May 14, 2007 in order that they may be considered for inclusion in the proxy statement and form of proxy relating to that meeting.

Also, if a shareholder does not notify the Company on or before July 18, 2007, of a proposal for the 2007 Annual Meeting of Shareholders, management intends to use its discretionary voting authority to vote on such proposal, even if the matter is not discussed in the proxy statement for the 2007 Annual Meeting of Shareholders.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Nominees

The Company's Bylaws currently provide for not less than five (5) nor more than nine (9) directors, with the exact number fixed at eight (8), and the Company's Articles of Incorporation provide for the classification of the Board of Directors into two classes serving staggered terms. The Company's Board of Directors currently consists of eight persons, including four Class I directors and four Class II directors. Each Class I and Class II director is elected for a two year term, with Class I directors elected in even numbered years (*e.g.*, 2006) and the Class II directors elected in odd numbered years (*e.g.*, 2007). Accordingly, at the Annual Meeting, four Class I directors will be elected.

The Board of Directors has nominated the persons named below to serve as Class I directors until the next even numbered year Annual Meeting during which their successors will be elected and qualified. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Company's four (4) nominees named below, all of whom are presently directors of the Company. In the event that any nominee of the Company is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy. In the event that additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them in such a manner as will assure the election of as many of the nominees listed below as possible, and, in such event, the specific nominees to be voted for will be determined by the proxy holders. Assuming a quorum is present, the four (4) nominees for director receiving the greatest number of votes cast at the Annual Meeting will be elected.

Nominees For Class I Directors

Class I Directors

Name of Nominee	Age	Principal Occupation	Director Since
Frederick Frank	74	Vice Chairman and Director of Lehman Brothers	1999
Stephen E. Halprin	68	Retired General Partner of OSCCO Ventures	1988
Richard S. Schneider, Ph.D.	65	Retired General Partner, Domain Associates	1991
Kenneth E. Jones	59	Chairman of the Board of Directors of Globe Wireless	2001

Except as set forth below, each of the Class I directors has been engaged in the principal occupation set forth next to his name above during the past five years. There is no family relationship between any director or executive officer of the Company.

Frederick Frank has served as a director since December 1999. Mr. Frank has been with Lehman Brothers for 37 years and was named to his current position of Vice Chairman in 1996. Before that, Mr. Frank was associated with Smith Barney where he was Vice President, Co-Director of Research, and a Director. During his 48 years on Wall Street, Mr. Frank has been involved in numerous financings and merger and acquisition transactions. He serves on the board of directors of several companies, including Pharmaceutical Product Development, Inc., EPIX Pharmaceuticals and eSoft Inc. Mr. Frank is Chairman of the National

Genetics Foundation and Chairman of the Irvington Institute for Immunological Research. He is a former Director and Trustee of Salk Institute. He serves on the Advisory Boards for Yale School of Organization and Management, Johns Hopkins Bloomberg School of Public Health, the Massachusetts Institute of Technology Center of Biomedical Innovation and the Harvard School of Public Health. He is a graduate of Yale University, received an M.B.A. from Stanford University and holds a C.F.A. designation.

Stephen E. Halprin has served as a director since April 1988. From 1968 until his retirement in 2005, Mr. Halprin was a General Partner of OSCCO Ventures, a venture capital company. Mr. Halprin received a B.S. from the Massachusetts Institute of Technology and an M.B.A. from Stanford University.

Richard S. Schneider, Ph.D. has served as a director since September 1991. From October 1990 until his retirement in 1999, Dr. Schneider was a general partner of Domain Associates. Dr. Schneider has over 25 years of product development experience in the fields of medical devices and biotechnology. Prior to pursuing a career in venture capital, Dr. Schneider was Vice President of Product Development at Syva/ Syntex Corporation and President of Biomedical Consulting Associates. He is a member of the board of directors of a number of privately-held life science companies. Dr. Schneider received a Ph.D. in chemistry from the University of Wisconsin, Madison.

Kenneth E. Jones has served as a director since May 2001. Mr. Jones has been with Globe Wireless since 1994 and he is currently Chairman of the Board of Directors. Globe Wireless is a leading provider of marine communications services world-wide with operations in 23 countries. Prior to Globe Wireless, Mr. Jones was Chief Executive Officer and Founder of Ditech Communications, a publicly traded telecommunications technology company. Mr. Jones' prior experience includes serving as President and Chief Executive Officer of a private label food business and Vice President and Chief Financial Officer of Hills Bros. Coffee, Inc. of San Francisco, CA. He is a graduate of the University of Nebraska in Chemical Engineering and received an M.B.A. from Harvard University.

Class II Directors

Directors continuing in office until the 2007 Annual Meeting of Shareholders:

Name of Director	Age	Principal Occupation	Director Since
Gary T. Steele	57	President, Chief Executive Officer and Chairman of the Board of Directors of the Company	1991
Nicholas Tompkins	51	President and Chief Executive Officer of Apio, Inc.	2003
Duke K. Bristow, Ph.D.	49	Economist, University of California, Los Angeles	2004
Robert Tobin	67	Retired CEO, Ahold, USA	2004

Except as set forth below, each of the Class II directors has been engaged in the principal occupation set forth next to his name above during the past five years.

Gary T. Steele has served as President, Chief Executive Officer and a director since September 1991 and as Chairman of the Board of Directors since January 1996. Mr. Steele has over 25 years of experience in the biotechnology, instrumentation and material science fields. From 1985 to 1991, Mr. Steele was President and Chief Executive Officer of Molecular Devices Corporation, a bioanalytical instrumentation company. From 1981 to 1985, Mr. Steele was Vice President, Product Development and Business Development at Genentech, Inc., a biomedical company focusing on pharmaceutical drug development. Mr. Steele has also worked with McKinsey and Co. and Shell Oil Company. Mr. Steele received a B.S. from Georgia Institute of Technology and an M.B.A. from Stanford University.

Nicholas Tompkins has been President and Chief Executive Officer of Apio, Inc., a subsidiary of Landec, since Apio's inception in 1979. Landec acquired Apio in December of 1999. Mr. Tompkins is a Senior Vice President of Landec and was elected to the Landec Board of Directors in 2003. Mr. Tompkins is also a current board member and past chairman of the Ag Business Advisory Council for California Polytechnic State University in San Luis Obispo. He has also been a member of the board of directors of the United Fresh Fruit and Vegetable Association for the past five years and was Chairman of that organization in 2005 and 2006. Mr. Tompkins received a B.S. in Agricultural Business from California State University of Fresno.

Duke K. Bristow, Ph.D. has served as a director since September 2004. Dr. Bristow has been with the University of California, Los Angeles for 15 years, where he has been an economist since 1995. His research and teaching interests include corporate finance, corporate governance and entrepreneurship. Previously, he was with Eli Lilly & Company, a leading life science firm, for ten years. He held management positions in the pharmaceutical, medical device and diagnostics divisions and in corporate finance. He holds a B.S. in Chemical Engineering from Purdue University, an M.B.A. from Indiana University, and his Ph.D. in Financial Economics from UCLA. Dr. Bristow serves on the boards of, or as an advisor to, a number of public and private organizations.

Robert Tobin has served as a director since December 2004. Mr. Tobin retired from his position as CEO of Ahold USA in 2001. Mr. Tobin has 43 years of industry experience in the food retail and food service sector, having served as Chairman and CEO of Stop and Shop Supermarkets. An industry leader, Mr. Tobin serves on the Advisory Boards of the College of Agriculture and Life Sciences, and the Undergraduate Business Program at Cornell University where he received his B.S. in Agricultural Economics. Mr. Tobin is also on the board of directors of Catalina Marketing Corporation.

Board of Directors Meetings and Committees

The Board of Directors held a total of six meetings during the fiscal year ended May 28, 2006. Each director attended at least 75% of all Board and applicable committee meetings during fiscal year 2006. The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee, each of which operates under a written charter approved by the Board of Directors. It is our policy to encourage the members of the Board of Directors to attend the Company's annual meeting of shareholders. Two directors attended our 2005 annual meeting of shareholders.

The Audit Committee currently consists of Mr. Halprin, Mr. Jones, and Dr. Bristow, each of whom meets the current independence requirements of the Securities and Exchange Commission (the "SEC") and the Nasdaq Stock Market, Inc. ("Nasdaq). The Audit Committee assists the Board of Directors in its oversight of Company affairs relating to the quality and integrity of the Company's financial statements, the independent auditor's qualifications and independence, the performance of the Company's internal audit function and independent auditors, and the Company's compliance with legal and regulatory requirements. The Audit Committee is responsible for appointing, compensating, retaining and overseeing the Company's independent auditors, and approving the services performed by the independent auditors and for reviewing and evaluating the Company's accounting principles and its system of internal accounting controls. The Sarbanes-Oxley Act of 2002 and rules adopted by the SEC require us to disclose whether the Audit Committee includes at least one member who is an "audit committee financial expert" within the meaning of such Act and rules. The Board of Directors has determined that there are two such financial experts on the Audit Committee and has designated Mr. Halprin and Dr. Bristow as audit committee financial experts. The Audit Committee held six meetings during fiscal year 2006.

The Compensation Committee currently consists of Mr. Tobin, Mr. Frank and Dr. Schneider, each of whom meets the current independence requirements of the SEC and Nasdaq. The function of the Compensation Committee is to review and set the compensation of the Company's Chief Executive Officer and certain of its most highly compensated officers, including salary, bonuses and other incentive plans, stock equity and other forms of compensation, to administer the Company's stock plans and approve stock equity awards and to oversee the career development of senior management. The Compensation Committee held five meetings during fiscal year 2006.

The Nominating and Corporate Governance Committee currently consists of Messrs. Tobin and Frank, each of whom meets the current independence requirements of Nasdaq. The functions of the Nominating and Corporate Governance Committee are to recommend qualified candidates for election as officers and directors of the Company and oversee the Company's corporate governance policies. The Nominating and Corporate Governance Committee held one meeting in fiscal year 2006.

The Nominating and Corporate Governance Committee will consider nominees proposed by current directors, officers, employees and shareholders. Any shareholder who wishes to recommend candidates for consideration by the Nominating and Corporate Governance Committee may do so by writing to the Secretary of the Company, Geoffrey P. Leonard of Ropes & Gray, LLP, One Embarcadero Center, Suite 2200, San Francisco, CA 94111, and providing the candidate's name, biographical data and qualifications. In selecting candidates for the Board of Directors, the Nominating and Corporate Governance Committee strives for a variety of experience and background that adds depth and breadth to the overall character of the Board of Directors. The Nominating and Corporate Governance Committee evaluates potential candidates using standards and qualifications such as the candidates' business experience, independence, diversity, skills and expertise to collectively establish a number of areas of core competency of the Board of Directors, including business judgment, management and industry knowledge. Further criteria include a candidate's integrity and values, as well as the willingness to devote sufficient time to attend meetings and participate effectively on the Board of Directors and its committees.

Mr. Jones serves as the lead independent director of the Company's Board of Directors.

Corporate Governance

The Company provides information on the Corporate Governance page of its website about its corporate governance policies, including the Company's Code of Ethics, and charters for the committees of the Board of Directors. The website can be found at *www.landec.com.*

The Company's policies and practices reflect corporate governance initiatives that are compliant with the listing requirements of Nasdaq and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

- A majority of the board members are independent;
- All members of the board committees — the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee — are independent;
- The independent members of the Board of Directors meet at least twice per year in executive sessions without the presence of management and the Board of Directors has designated a lead independent director who, among other duties, will be responsible for presiding over executive sessions of the independent directors;
- The Company has an ethics hotline available to all employees, and the Audit Committee has procedures in place for the anonymous submission of employee complaints on accounting, internal controls, or auditing matters; and
- The Company has adopted a Code of Ethics that applies to all of its employees, including its principal executive officer and all members of its finance department, including the principal financial officer and principal accounting officer, as well as the Board of Directors. Any substantive amendments to the Code of Ethics or grant of any waiver, including any implicit waiver, from a provision of the Code of Ethics to the Company's Chief Executive Officer or Chief Financial Officer, will be disclosed either on the Company's website or in a report on Form 8-K.

Shareholder Communications

Our Board of Directors welcomes communications from our shareholders. Shareholders may send communications to the Board of Directors, or to any director in particular, c/o Gregory S. Skinner, Chief Financial Officer, Landec Corporation, 3603 Haven Avenue, Menlo Park, CA 94025. Any correspondence addressed to the Board of Directors or to any one of our directors in care of Mr. Skinner will be promptly forwarded to the addressee. The independent directors of the Board of Directors review and approve the shareholder communication process periodically to ensure effective communication with shareholders.

Compensation of Directors

Annual Retainers

For the fiscal year ended May 28, 2006, each non-employee director earned $20,000 per year for their service as a member of our Board of Directors. In addition, each director who served as the Chairman of the Compensation Committee received an annual retainer of $5,000, each Director who served on the Audit Committee received an annual retainer of $10,000, with the Chairman receiving an annual retainer of $15,000, and each Director who served as the lead independent director received an annual retainer of $10,000.

Meeting Fees

For the fiscal year ended May 28, 2006, each Director received $1,000 for each meeting of the Board attended in person ($500 if attended by phone), $500 for each meeting of a Committee attended in person, and $1,000 for each shareholder meeting attended by the Director. Reasonable out-of-pocket expenses incurred by a Director to attend Board meetings, Committee meetings or shareholder meetings in his or her capacity as a Director were reimbursed.

Equity Awards

On October 14, 2005, the date of the last Annual Meeting of Shareholders, each of Messrs. Frank, Halprin, Tobin and Jones and Drs. Bristow and Schneider was automatically granted an option to purchase 10,000 shares of Common Stock under the Company's 1995 Directors' Stock Option Plan (the "Directors' Plan"). All such options were granted with an exercise price of $6.85 per share which was the fair market value of the Common Stock on October 14, 2005.

At the last Annual Meeting of Shareholders, the shareholders approved the 2005 Stock Incentive Plan, and the Directors' Plan was terminated. The 2005 Stock Incentive Plan does not have an automatic grant feature, but instead provides for discretionary awards to non-employee directors not exceeding 30,000 shares for any non-employee director in any fiscal year.

Required Vote

The four Class I director nominees receiving the highest number of affirmative votes of shares of the Company's Common Stock present at the Annual Meeting in person or by proxy and entitled to vote shall be elected as directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF EACH OF THE NOMINEES LISTED ABOVE.

PROPOSAL NO. 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed the firm of Ernst & Young LLP as the Company's independent registered public accounting firm to audit the financial statements of the Company for the fiscal year ending May 27, 2007, and recommends that the shareholders vote for ratification of this appointment. In the event the shareholders do not ratify such appointment, the Audit Committee will reconsider its selection. Ernst & Young LLP has audited the Company's financial statements since the fiscal year ending October 31, 1994. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting with the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions.

Fees Paid to Ernst & Young LLP

The following table presents fees paid by the Company for professional services rendered by Ernst & Young LLP for the fiscal years ended May 28, 2006 and May 29, 2005.

Fee Category	Fiscal 2006	Fiscal 2005
Audit Fees	$558,278	$743,000
Audit-Related Fees	$ 0	$ 0
Tax Fees	$ 0	$ 0
All Other Fees	$ 0	$ 0
Total	$558,278	$743,000

Audit Fees were for professional services rendered for the integrated audit of the Company's annual financial statements and internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002 (beginning in fiscal year 2005), for the review of the Company's interim financial statements included in the Company's Forms 10-Q, and for assistance with and review of documents filed by the Company with the SEC.

Audit Committee Pre-Approval Policies

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee, or its designee, may also pre-approve particular services on a case-by-case basis.

Required Vote

The ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm requires the affirmative vote of the holders of a majority of the shares of the Company's common stock present at the Annual Meeting in person or by proxy and entitled to vote and constituting at least a majority of the required quorum.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING MAY 27, 2007.

EXECUTIVE OFFICERS OF THE COMPANY

The following sets forth certain information with regard to executive officers of the Company. Ages are as of August 21, 2006.

Gary T. Steele (age 57) has been President, Chief Executive Officer and a director of the Company since 1991 and Chairman of the Board of Directors since January 1996. Mr. Steele has over 25 years of experience in the biotechnology, instrumentation and material science fields. From 1985 to 1991, Mr. Steele was President and Chief Executive Officer of Molecular Devices Corporation, a bioanalytical instrumentation company. From 1981 to 1985, Mr. Steele was Vice President, Product Development and Business Development at Genentech, Inc., a biomedical company focusing on pharmaceutical drug development. Mr. Steele has also worked with McKinsey and Co. and Shell Oil Company.

David D. Taft, Ph.D. (age 68) has been Chief Operating Officer of the Company since 1993 and was Chief Operating Officer of Apio, Inc. from October 2002 to May 2005. Dr. Taft also served as a director of the

Company from 1990 through 1995. From February 1986 to April 1993, Dr. Taft was Vice President and Group Manager of the Manufacturing Group at Raychem Corporation. From July 1983 to January 1986, Dr. Taft was Group Manager of the Telecom Group at Raychem Corporation and was appointed to the position of Vice President in October 1984. Dr. Taft has over 40 years of experience in the specialty chemical industry in research and development, sales and marketing, manufacturing and general management. Prior to joining Raychem Corporation, Dr. Taft was Executive Vice President of the Chemical Products Division and a Director of Henkel Corporation. Dr. Taft was also an executive with General Mills Chemicals and Ashland Chemical.

Thomas F. Crowley (age 61) has been President and Chief Executive Officer of Landec Ag, Inc., a subsidiary of the Company, since November 1996. From 1991 to 1995, Mr. Crowley was President and Chief Executive Officer of Broadcast Partners, a satellite communications firm serving farmers throughout North America with its FarmDayta information service. Broadcast Partners was a joint venture of Pioneer Hybrid, Farmland Industries and Illinois Farm Bureau and was sold to Data Transmission Network, Inc. in May 1996. From 1976 to 1990, Mr. Crowley served as Executive Vice President and Chief Operating Officer of Edward J. Funk & Sons, Incorporated, a producer and marketer of hybrid corn seed. He also served as Vice President of Business Affairs for St. Joseph's College in Rensselaer, Indiana and as an auditor/CPA with Arthur Anderson and Company in Chicago, Illinois.

Nicholas Tompkins (age 51) has been President and Chief Executive Officer of Apio, Inc., a subsidiary of Landec, since Apio's inception in 1979. Landec acquired Apio in December of 1999. Mr. Tompkins is a Senior Vice President of Landec and was elected to the Landec Board of Directors in 2003. Mr. Tompkins is also a board member and past chairman of the Ag Business Advisory Council for California Polytechnic State University in San Luis Obispo. He has been a member of the board of directors of the United Fresh Fruit and Vegetable Association for the past five years and was Chairman of that organization in 2005 and 2006.

Gregory S. Skinner (age 45) has been Chief Financial Officer and Vice President of Finance of the Company since November 1999 and Vice President of Administration since November 2000. From May 1996 to October 1999, Mr. Skinner served as Controller of the Company. From 1994 to 1996, Mr. Skinner was Controller of DNA Plant Technology, and from 1988 to 1994 he was with Litton Electron Devices. Prior to joining Litton Electron Devices, Mr. Skinner was with Litton Industries, Inc. and Arthur Anderson & Company.

Steven P. Bitler, Ph.D. (age 48) has been Vice President, Corporate Technology of the Company since March 2002. From 1988 until March 2002, Dr. Bitler held various positions with the Company related to the Company's polymer product development and thermal switch products. Prior to joining the Company, he developed new high strength polymeric materials at SRI International.

COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of the Company's Common Stock as of August 21, 2006 as to (i) each person who is known by the Company to beneficially own more than five percent of any class of the Company's voting stock, (ii) each of the Company's directors, (iii) each of the executive officers named in the Summary Compensation Table of this proxy statement, and (iv) all directors and executive officers as a group. Unless otherwise indicated, the business address of each director and executive officer named below is c/o Landec Corporation, 3603 Haven Avenue, Menlo Park, CA 94025.

5% Shareholders, Directors, Named Executive Officers, and Directors and Executive Officers as a Group	Shares Beneficially Owned (1)	
	Number of Shares	Percent of Total(2)
5% Shareholders		
Wells Fargo and Company 420 Montgomery Street San Francisco, CA 94104	2,852,225(3)	11.41%
Wynnefield Capital Management LLC 450 7th Avenue, Suite 509 New York, NY 10123	1,521,100(4)	6.09%
Executive Officers and Directors		
Gary T. Steele Chairman of the Board of Directors, Chief Executive Officer and President	1,026,385(5)	3.95%
David D. Taft, Ph.D. Chief Operating Officer	323,615(6)	1.28%
Nicholas Tompkins Chief Executive Officer of Apio, Inc. Senior Vice President and Director of Landec	1,318,450(7)	5.22%
Gregory S. Skinner Chief Financial Officer and Vice President of Finance & Administration	351,378(8)	1.39%
Steven P. Bitler, Ph.D. Vice President, Corporate Technology	90,055(9)	*
Duke K. Bristow, Ph.D., Director	35,000(10)	*
Robert Tobin, Director	35,000(11)	*
Frederick Frank, Director	1,761,700(12)	7.02%
Stephen E. Halprin, Director	156,319(13)	*
Kenneth E. Jones, Director	807,492(14)	3.23%
Richard S. Schneider, Ph.D., Director	148,469(15)	*
All directors and executive officers as a group (12 persons)	6,167,489(16)	22.53%

* Less than 1%

(1) Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of capital stock.

(2) As of August 21, 2006, 24,989,192 shares of Common Stock were issued and outstanding. Percentages are calculated with respect to a holder of options exercisable within 60 days after August 21, 2006 as if such holder had exercised its options. Option shares held by other holders are not included in the percentage calculation with respect to any other holder.

(3) This information is based on a Schedule 13G/A filed with the SEC on February 2, 2006 by Wells Fargo and Company.

(4) This information is based on a Schedule 13F filed with the SEC on May 15, 2006 by Wynnefield Capital Management LLC.

(5) This number includes 49,814 shares held in trust of which Mr. Steele is a beneficial owner and 739 shares owned directly by Mr. Steele. This number also includes 975,832 shares subject to outstanding stock options exercisable within 60 days after August 21, 2006.

(6) This number includes 286,111 shares subject to outstanding stock options exercisable within 60 days after August 21, 2006. This number excludes 100,000 shares of common stock of Apio, Inc. subject to outstanding stock options exercisable within 60 days after August 21, 2006.

(7) This number includes 600 shares held by his minor children. This number also includes 275,000 shares subject to outstanding stock options exercisable within 60 days after August 21, 2006. This number excludes 1,900,000 shares of common stock of Apio, Inc. subject to outstanding stock options exercisable within 60 days after August 21, 2006.

(8) This number includes 24,500 shares subject to outstanding stock options exercisable within 60 days after August 21, 2006, owned by Stacia Skinner, Mr. Skinner's wife, and 1,298 shares owned by Mrs. Skinner. This number also includes 289,808 shares subject to outstanding stock options exercisable within 60 days after August 21, 2006.

(9) This number includes 52,486 shares subject to outstanding stock options exercisable within 60 days after August 21, 2006.

(10) This number includes 35,000 shares subject to outstanding stock options exercisable within 60 days after August 21, 2006.

(11) This number includes 35,000 shares subject to outstanding stock options exercisable within 60 days after August 21, 2006.

(12) This number includes 95,000 shares subject to outstanding stock options exercisable within 60 days after August 21, 2006.

(13) This number includes 51,319 shares held in a trust of which Mr. Halprin is a beneficial owner. This number also includes 105,000 shares subject to outstanding stock options exercisable within 60 days after August 21, 2006.

(14) This number includes 206,000 shares owned by Western General Corp., of which Mr. Jones is president and a director and 526,492 held in a living trust and 50,000 held directly by Mr. Jones. This number also includes 25,000 shares subject to outstanding stock options exercisable within 60 days after August 21, 2006.

(15) This number includes 53,469 shares held in a trust of which Dr. Schneider is a beneficial owner. This also includes 95,000 shares subject to outstanding stock options exercisable within 60 days after August 21, 2006.

(16) This number includes an aggregate of 2,387,695 shares held by officers and directors which are subject to outstanding stock options exercisable within 60 days after August 21, 2006.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

General

The Company's executive compensation policies are determined by the Compensation Committee (the "Committee") of the Board of Directors. The Committee is comprised of three non-employee directors.

The objective of the Company's executive compensation program is to align executive compensation with the Company's business objectives and performance, and to enable the Company to attract, retain and reward executives who contribute to the long-term business success of the Company. The Company's executive compensation program is based on the same four basic principles that guide compensation decisions for all employees of the Company:

- The Company compensates for demonstrated and sustained performance.
- The Company compensates competitively.
- The Company strives for equity and fairness in the administration of compensation.
- The Company believes that each employee should understand how his or her compensation is determined.

The Company believes in compensating its executives for demonstrated and sustained levels of performance in their individual jobs. The achievement of higher levels of performance and contribution are rewarded by higher levels of compensation. In order to ensure that it compensates its executives competitively, the Company regularly compares its compensation practices to those of other companies of comparable size within similar industries. Through the use of independent compensation surveys and analysis, employee compensation training, and periodic pay reviews, the Company strives to ensure that compensation is administered equitably and fairly and that a balance is maintained between how executives are paid relative to other employees and relative to executives with similar responsibilities in comparable companies.

The Committee meets at least twice annually. Additionally, the Committee may hold special meetings to approve the compensation program of a newly hired executive or an executive whose scope of responsibility has significantly changed. Each year, the Committee meets with the Chief Executive Officer ("CEO") regarding executive compensation projections for the next three years and proposals for executive compensation for the next operating year. Compensation plans are based on compensation surveys and assessments as to the demonstrated and sustained performance of the individual executives. The Committee then independently reviews the performance of the CEO and the Company, and develops the annual compensation plan for the CEO based on competitive compensation data and the Committee's evaluation of the CEO's demonstrated and sustained performance and its expectation as to his future contributions in leading the Company. At a subsequent meeting of the full Board of Directors, the Committee presents for adoption its findings on the compensation of each individual executive.

Compensation of Executive Officers

During the fiscal year ended May 28, 2006 the Company's executive compensation program was comprised of the following key components: base salary, annual bonus, and equity-based incentives.

Base Salary.

The Compensation Committee annually reviews the salaries of the Company's executives. When setting base salary levels, in a manner consistent with the objectives outlined above, the Committee considers competitive market conditions for executive compensation, Company performance and individual performance.

Annual Bonus.

Cash bonuses are paid only if performance goals that are set by the Company at the beginning of the fiscal year are achieved during the fiscal year. During fiscal year 2006, Messrs. Tompkins and Skinner and Drs. Taft and Bitler earned bonuses of $125,000, $131,800, $146,600 and $60,200 respectively. These bonuses reflect their performance against pre-determined goals and objectives for fiscal year 2006.

Equity-Based Incentives.

Equity awards are an important component of the total compensation of executives. The Company believes that equity awards align the interests of each executive with those of the shareholders. They also provide executives a significant, long-term interest in the Company's success and help retain key executives in a competitive market for executive talent.

The stock options previously granted under the Company's former stock option plans typically have four-year vesting periods to encourage executives to continue contributing to the Company, and they expire ten years from the date of grant.

The 2005 Stock Incentive Plan authorizes the Committee to grant stock options, stock appreciation rights, stock units and restricted stock to executives. The number of shares owned by, or subject to options or units held by, each executive officer is periodically reviewed and additional awards are considered based on past performance of the executive and the relative holdings of other executives in the Company and at other companies in the comparable industry. It is the intention of the Committee to grant awards under the 2005 Stock Incentive Plan which consist of a combination of stock options and restricted stock units at a ratio of three-to-one. The stock options are to vest over three years and the restricted stock units are to vest on the third anniversary of the grant date.

Compensation of the Chief Executive Officer.

Base Salary.

Mr. Steele entered into a new employment agreement with the Company effective January 1, 2006. Under the employment agreement, Mr. Steele will be paid an annual base salary of $375,000 per year, which is subject to review by the Committee.

Annual Incentive Compensation.

Mr. Steele participates in the Company's cash bonus plan as it may be modified from time to time. Under the terms of the cash bonus plan for fiscal year 2006, Mr. Steele's bonus (which could not exceed 100% of his base salary) was based upon the attainment of pre-determined goals established by the Company. The performance goals for fiscal year 2006 were based upon the achievement of separate income and revenue targets for the Company and bonuses are calculated by multiplying Mr. Steele's base salary by the percentage of the aggregate performance goals that were achieved. A minimum percentage of the aggregate performance goals must be attained in order to receive a bonus. For fiscal year 2006, Mr. Steele received a cash bonus of $282,750.

Long-Term Incentive Compensation.

Mr. Steele is eligible for grants of equity awards under the 2005 Stock Incentive Plan as determined by the Committee.

Deductibility of Executive Compensation.

The Committee has considered the impact of Section 162(m) of the Internal Revenue Code, which section disallows a deduction for any publicly held corporation for individual compensation exceeding $1 million in any taxable year for the CEO and the four other most highly compensated executive officers, unless such compensation meets the requirements for the "performance-based" exception to the general rule.

As the cash compensation paid by the Company to each of its executive officers is expected to be below $1 million and the Committee believes that options granted under the Company's stock plans to such officers will qualify as performance-based, the Committee believes that this section will not affect the tax deductions available to the Company. It will be the Committee's policy to qualify, to the extent reasonable, the executive officers' compensation for deductibility under applicable tax law.

This Report is submitted by the Compensation Committee.

Richard S. Schneider, Ph.D. (Chairman)
Frederick Frank
Robert Tobin

The information contained in this report shall not be deemed to be "soliciting material" or "filed" with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended (the "Securities Act") or the Exchange Act.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal year 2006, none of the Company's executive officers served on the board of directors of any entities whose directors or officers serve on the Company's Compensation Committee. No current or past executive officer of the Company or its subsidiaries serves on the Compensation Committee.

EXECUTIVE COMPENSATION
SUMMARY COMPENSATION TABLE

The following Summary Compensation Table sets forth the compensation earned by the Company's Chief Executive Officer and the four other highest-paid executive officers (collectively, the "Named Executive Officers") for services rendered in all capacities to the Company for fiscal year 2006, as well as the compensation earned by each such individual for fiscal years 2005 and 2004.

		Annual Compensation		Long-Term Compensation Awards	
Name and Principal Position	**Fiscal Year**	**Salary ($) (1)**	**Bonus ($) (2)**	**Securities Underlying Options (#)**	**All Other Compensation ($)**
Gary T. Steele	2006	348,173	282,750	0	3,736(3)
Chairman of the Board,	2005	330,000	0	200,000	4,441(3)
Chief Executive Officer and	2004	317,941	0	0	0
President					
David D. Taft, Ph.D.	2006	285,000	146,600	5,000	672(7)
Chief Operating Officer	2005	285,000	71,250	10,000	0
	2004	248,995	15,000	25,000	0
Nicholas Tompkins	2006	125,000	125,000(5)	0	7,100(6)
President and Chief Executive	2005	47,840	0	0	0
Officer of Apio, Inc.(4)	2004	28,080	0	0	0
Gregory S. Skinner	2006	236,544	131,800	0	672(7)
Chief Financial Officer & V.P.	2005	216,545	0	45,000	0
of Finance and Administration	2004	178,885	37,660	0	0
Steven P. Bitler, Ph.D.	2006	175,450	60,200	0	590(7)
Vice President, Corporate	2005	175,450	0	0	0
Technology	2004	138,920	0	0	0

(1) Includes amounts deferred under the Company's 401(k) plan.

(2) Includes bonuses earned in the indicated year and paid in the subsequent year. Excludes bonuses paid in the indicated year but earned in the preceding year.

(3) Consists of disability and life insurance premiums paid by the Company for the benefit of Mr. Steele.

(4) Apio, Inc. is a subsidiary of the Company.

(5) Mr. Tompkins earned a bonus of $125,000, but agreed to forego receipt of that bonus and directed that the bonus be allocated to (i) pay additional bonuses to two Apio employees, (ii) make a charitable contribution on behalf of Apio and (iii) pay for an outing for Apio employees.

(6) Consists of life insurance premiums and car lease payments paid by the Company.

(7) Consists of term life insurance premiums paid by the Company.

STOCK OPTION GRANTS IN FISCAL YEAR ENDED MAY 28, 2006

The following table sets forth information for the Named Executive Officers with respect to grants of options to purchase Common Stock of the Company made in the fiscal year ended May 28, 2006.

	Individual Grants				Grant Date Value
Name	Number of Securities Underlying Options/SARs Granted(1)	% of Total Options/SARs Granted to Employees in Fiscal Year*	Exercise or Base Price ($/Sh)	Expiration Date	Grant Date Present Value ($) (2)
Gary T. Steele	0	0	n/a	n/a	0
David D. Taft, Ph.D.	5,000	6.1%	$6.09	07/29/2012	15,805
Gregory S. Skinner	0	0	n/a	n/a	0
Nicholas Tompkins	0	0	n/a	n/a	0
Steven P. Bitler, Ph.D.	0	0	n/a	n/a	0

* Total number of shares subject to options granted by the Company to employees for the fiscal year ended May 28, 2006 was 82,500 shares.

(1) No stock appreciation rights were granted during the fiscal year ended May 28, 2006.

(2) The Company uses a Black-Scholes model of option valuation to determine grant date present value. The Company does not advocate or necessarily agree that the Black-Scholes model can properly determine the value of an option. Calculations for the Named Executive Officers are based on a 4.58 year expected option life, which reflects the Company's experience that its options, on average, are exercised within 4.58 years of grant. Other assumptions used for the valuations are: interest rate (risk-free rate of return) of 4.37%; annual dividend yield of 0%; and volatility of 0.52. Actual gains, if any, on stock option exercises and Common Stock holdings are dependent upon a number of factors, including the future performance of the Common Stock, overall market conditions and the timing of option exercises, if any.

AGGREGATED OPTION EXERCISES IN FISCAL YEAR 2006 AND FISCAL YEAR END OPTION VALUES

The following table sets forth information with respect to options exercised by the Named Executive Officers during the fiscal year ended May 28, 2006, and with respect to unexercised options to purchase shares of Common Stock held by such officers as of May 28, 2006.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End (Exercisable/ Unexercisable) (1)	Value of Unexercised In-The-Money Options at Fiscal Year-End (Exercisable/ Unexercisable) (2)
Gary T. Steele	34,782	$182,129	970,624/9,376	$3,445,976/$52,224
David D. Taft, Ph.D.	13,913	$ 73,460	285,000/0	$472,274/$0
Nicholas Tompkins...........	462,850	$833,000	275,000/0	$1,405,250/$0
Gregory S. Skinner...........	0	$ 0	285,442/4,558	$846,153/$29,627
Steven P. Bitler, Ph.D.	0	$ 0	49,812/2,188	$200,578/$14,222

(1) No stock appreciation rights (SARs) were outstanding as of May 28, 2006.

(2) Based on the closing price of the Company's Common Stock as reported on the NASDAQ Global Market on May 28, 2006 of $8.39 per share minus the exercise price of the in-the-money options.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of May 28, 2006 about the shares of Common Stock that may be issued under the 2005 Stock Incentive Plan upon the exercise or vesting of stock options, stock grants, stock units or stock appreciation rights.

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights(a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity Compensation Plans Approved by Shareholders	3,333(1)	$7.53	857,705

(1) Consists of an option to purchase 2,500 shares of Common Stock and 833 restricted stock units.

AUDIT COMMITTEE REPORT

The information contained in this report shall not be deemed to be "soliciting material" or "filed" with the SEC or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act or the Exchange Act.

Composition

The Audit Committee of the Board of Directors consists of the three directors whose signatures appear below and operates under a written charter adopted by the Board of Directors. Each member of the Audit Committee meets the independence and financial experience requirements of Nasdaq and the SEC currently in effect. In addition, the Board of Directors has determined that each of Mr. Halprin and Dr. Bristow is an "audit committee financial expert" within the meaning of the rules of the SEC.

Responsibilities

The responsibilities of the Audit Committee include appointing an independent registered public accounting firm. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and for issuing a report thereon. Management is responsible for the Company's internal controls and financial reporting process. The Audit Committee's responsibility is to oversee these processes and the Company's internal controls. The Audit Committee members are not acting as professional accountants or auditors, and their functions are not to duplicate or to certify the activities of management and the independent registered public accounting firm, nor can the Audit Committee certify that the independent registered public accounting firm is "independent" under applicable rules.

Review with Management and Independent Auditors

The Audit Committee held six meetings during fiscal year 2006. The Audit Committee met and held discussions with management and representatives of the Company's independent registered public accounting firm, Ernst & Young LLP. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements for the fiscal year ended May 28, 2006 with management and the independent registered public accounting firm. The Audit Committee met with the Company's independent registered public accounting firm, with and without management present, to discuss the overall scope and plans for their audit, the results of their examination, their evaluation of the Company's internal controls, and the overall quality of the Company's financial reporting. The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by Statement on Auditing Standards 61, *Communication with Audit Committees,* including the judgment of the independent registered public accounting firm as to the quality of the Company's accounting principles.

In addition, the Company's independent registered public accounting firm provided to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees* and the Audit Committee discussed with the independent registered public accounting firm its independence from management and the Company.

Charter

The Board has adopted a written charter for the Audit Committee. The charter is reviewed annually for changes, as appropriate, and on July 24, 2006 the Board amended the charter of the Audit Committee. A copy of the charter of the Audit Committee is attached to this proxy as Appendix A.

Summary

Based upon the Audit Committee's discussions with management and the independent registered public accounting firm and the Audit Committee's review of the representations of management, and the report of the independent registered public accounting firm to the Audit Committee, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended May 28, 2006, as filed with the SEC.

This report is submitted by the Audit Committee.

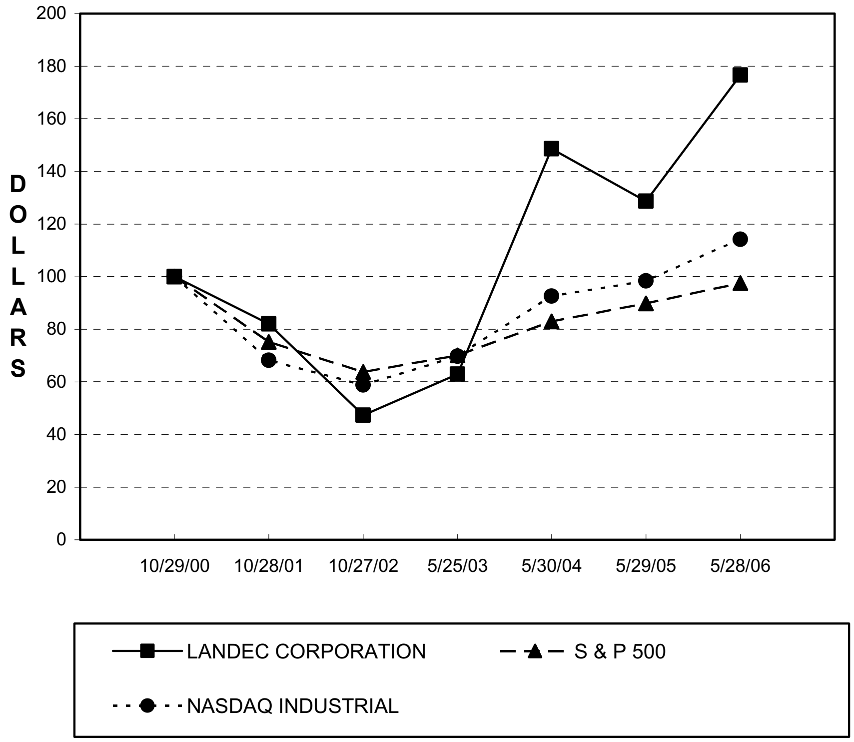
Stephen E. Halprin (Chairman)
Duke K. Bristow, Ph.D.
Kenneth E. Jones

PERFORMANCE GRAPH

The following graph summarizes cumulative total shareholder return data (assuming reinvestment of dividends) for fiscal years 2006, 2005 and 2004, the seven-month period ended May 25, 2003, and the two preceding fiscal years of the Company. The graph assumes that $100 was invested on October 29, 2000 in each of the Common Stock of the Company, the Standard & Poor's 500 Stock Index and the NASDAQ Industrial Index. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

The information contained in this graph shall not be deemed to be "soliciting material" or "filed" with the SEC or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act or the Exchange Act.

COMPARISON OF 67 MONTH CUMULATIVE TOTAL RETURN*
AMONG LANDEC CORPORATION, THE S & P 500 INDEX
AND THE NASDAQ INDUSTRIAL INDEX



* $100 invested on 10/29/00 in stock or on 10/31/00 in index-including reinvestment of dividends. Indexes calculated on month-end basis.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Pursuant to the terms of farmer agreements entered into between Apio, Inc. ("Apio") and the Nick Tompkins Ranch, Security Farms and Keystone Farms (the "Tompkins Farms"), Apio provides packing, cooling and distributing services for produce planted and grown by the Tompkins Farms, and Apio purchases produce from these farms. The terms of the agreements are substantially the same as the terms offered by Apio to other growers. During fiscal year 2006, Apio paid the Tompkins Farms $57,000 for produce. Mr. Tompkins wholly-owns the Nick Tompkins Ranch and has a greater than ten percent (10%) ownership interest in each of Security Farms and Keystone Farms.

On July 3, 2003, Apio entered into a Purchase Agreement (the "Purchase Agreement") with Beachside Produce, LLC (formerly known as Apio Fresh), a California limited liability company ("Beachside") and the Growers (as defined below) to sell its domestic commodity vegetable business to Beachside. Beachside is owned and operated by a group of persons and entities (the "Growers") that supply produce to Apio, including Mr. Tompkins, who owns 12.5% of Beachside. Under the terms of the Purchase Agreement, Beachside purchased equipment associated with the domestic commodity vegetable business for approximately $160,000, and a portion of Apio's existing carton inventory for approximately $250,000. In connection with the Purchase Agreement, Apio, Beachside and the Growers entered into a supply agreement pursuant to which Beachside and the Growers have agreed to supply produce to Apio for its value-added business and pay a per carton royalty for use of Apio's brand names. During fiscal year 2006, the Company paid Beachside $4,502,000 for produce and recognized revenues derived from services provided to Beachside for cooling and storing produce of $3,725,000, revenues of $103,000 from the sale of products to Beachside and royalty revenues of $264,000 from the use by Beachside of Apio's trademarks.

During fiscal year 2006, Apio leased for approximately $554,000 land that is either owned, controlled or leased by Mr. Tompkins, and subleased that land to growers who deliver produce to Apio. The terms of the leases are substantially the same as the terms offered by Apio to other growers.

During fiscal year 2006, Stacia Skinner, wife of Mr. Greg Skinner, the Company's Chief Financial Officer, was employed at the Company and received approximately $113,500 in compensation. Mrs. Skinner, the Company's Information Technology Director, does not report to the Company's Chief Financial Officer.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

The Company entered into an employment agreement with Mr. Gary Steele as of January 1, 2006, setting forth the terms of his employment. The employment agreement expires on December 31, 2008 unless renewed or extended by both parties, and provides that Mr. Steele shall be paid an annual base salary of $375,000 plus an annual incentive award based upon the attainment of pre-determined, mutually established goals. Mr. Steele will be eligible for grants of equity interests under the Company's 2005 Stock Incentive Plan at times and in such amounts as determined by the Compensation Committee.

The employment agreement further provides that upon Mr. Steele's death or disability, the Company shall pay Mr. Steele or his estate his unpaid base salary and the pro rata portion of his annual incentive award through the date of termination. If Mr. Steele is terminated without cause or if he terminates his employment for good reason (any relocation of Mr. Steele's place of employment, reduction in salary, or material reduction of his duties or authority), Mr. Steele will receive a severance payment equal to 100% of his base salary and a one-year acceleration of his unvested stock options or other equity awards, and the Company will pay the monthly premiums for health insurance coverage for Mr. Steele (and his spouse) until Mr. Steele attains age 65 or at such time as Mr. Steele receives substantially equivalent health insurance coverage in connection with new employment. In addition, the employment agreement provides that if Mr. Steele is terminated without cause or terminates employment for good reason within two (2) years following a "change of control," Mr. Steele will receive a severance payment equal to 150% of his base salary and the Company will pay the monthly premiums for health insurance coverage for Mr. Steele (and his spouse) until Mr. Steele attains age 65 or at such time as Mr. Steele receives substantially equivalent health insurance coverage in connection with new employment. In the event of a "change in control", all of Mr. Steele's unvested stock options or other equity awards shall immediately vest and become exercisable.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and holders of more than ten percent of the Company's Common Stock are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely upon review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended May 28, 2006 all Section 16(a) filing requirements applicable to the Company's officers, directors and holders of more than ten percent of the Company's Common Stock were satisfied except that Dr. Taft and Mr. Tompkins were each late in filing a Form 4.

OTHER MATTERS

The Board of Directors knows of no other matters to be submitted to the meeting. If any other matters properly come before the meeting, then the persons named in the enclosed form of proxy will vote the shares they represent in such manner as the Board may recommend.

It is important that the proxies be returned promptly and that your shares be represented. Shareholders are urged to mark, date, execute and promptly return the accompanying proxy card in the enclosed envelope or vote their shares by telephone or via the Internet.

BY ORDER OF THE BOARD OF DIRECTORS

Geoffrey Leonard

GEOFFREY P. LEONARD
SECRETARY

Menlo Park, California
September 1, 2006

Charter of the Audit Committee
of the
Board of Directors
of
LANDEC CORPORATION

1. *Purpose.* The purpose of the Audit Committee (the "Committee") shall be to (a) appoint and oversee the independent auditor and (b) assist the Board of Director's oversight of (i) the preparation of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications and independence, and (iv) the performance of the Company's internal audit function and independent auditor.

2. *Composition of the Audit Committee.* The Committee shall consist of not less than three members appointed by the Board of Directors of the Company. Committee members may be removed by the Board of Directors in its discretion. Members of the Committee shall each satisfy the independence requirements of the Sarbanes-Oxley Act of 2002 (the "Act") and The Nasdaq Stock Market, Inc. ("Nasdaq") as such requirements are interpreted by the Board of Directors in its business judgment, and the Board of Directors shall annually review the Committee's compliance with such requirements. Members of the Committee shall be or become versed in reading and understanding financial statements.

3. *Meetings of the Audit Committee.* The Committee shall hold regularly scheduled meetings and such special meetings as circumstances dictate. It shall meet separately, at least quarterly, with management and the independent auditor to discuss any matters that the Committee or any of these persons or firms believe should be discussed privately. The Committee may request that any officer or employee of the Company or the Company's outside counsel or independent auditor attend a meeting of the Committee or meet with members of, or consultants to, the Committee. The Committee shall report regularly to the Board of Directors.

4. *Responsibilities of the Audit Committee.* The function of the Committee is oversight. While the Committee has the responsibilities set forth in this charter, it is not the responsibility of the Committee to plan or conduct audits, to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles or to assure compliance with laws, regulations or any internal rules or policies of the Company. This is the responsibility of management. The independent auditor is responsible for performing independent audits of the Company's consolidated financial statements in accordance with generally accepted auditing standards and for issuing reports thereon. The Committee has direct and sole responsibility for the appointment, compensation, oversight and replacement, if necessary, of the independent auditor, including the resolution of disagreements between management and the auditor regarding financial reporting. Each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Company that it receives information from and (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations, absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors).

5. *Duties and Proceedings of the Audit Committee.* The Committee shall assist the Board of Directors in fulfilling its oversight responsibilities by accomplishing the following:

5.1. *Oversight of Independent Auditor.*

(a) Annually evaluate, determine the selection of, and if necessary, determine the replacement of or rotation of, the independent auditor.

(b) Pre-approve all auditing services (including comfort letters and statutory audits) and all permitted non-audit services by the auditor. To the extent permitted under applicable law, rules and regulations, and the Company's Articles of Incorporation and Bylaws, the Committee may delegate to one or more of its members the authority to grant pre-approvals of audit services and non-audit services provided such decisions are presented to the full Committee at regularly scheduled meetings.

(c) Receive formal written statements, at least annually, from the independent auditor regarding the auditor's independence, including a delineation of all relationships between the auditor and the Company; discuss with the independent auditor any disclosed relationships or services that may impact the objectivity and independence of the independent auditor, addressing at least the matters set forth in Independence Standards Board Standard No. 1; and if so determined by the Committee, recommend that the Board of Directors take appropriate action to satisfy itself of the independence of the auditor.

(d) At least annually, receive a report, orally or in writing, from the independent auditor detailing the firm's internal quality control procedures and any material issues raised by independent auditor's internal quality control review, peer review or any governmental or other professional inquiry performed within the past five years and any remedial actions implemented by the firm.

5.2. *Oversight of Audit Process and Company's Legal Compliance.*

(a) Review with internal auditors and independent auditor the overall scope and plans for audits, including authority and organizational reporting lines and adequacy of staffing and compensation. Review with internal auditors and independent auditor any difficulties with audits and management's response.

(b) Review and discuss with management, internal auditors and the independent auditor the Company's system of internal control, its financial and critical accounting practices, and policies relating to risk assessment and management.

(c) Review and approve, after discussion with management, internal auditors and the independent auditor, all related party transactions (other than compensation transactions) and potential conflict of interest situations.

(d) Receive and review reports of the independent auditor discussing (1) all critical accounting policies and practices to be used in the firm's audit of the Company's financial statements, (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor, and (3) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

(e) Discuss with management and the independent auditor any changes in the Company's critical accounting principles and the effects of alternative GAAP methods, off-balance sheet structures and regulatory and accounting initiatives.

(f) Review and discuss with management and the independent auditor the annual and quarterly financial statements and MD&A of the Company prior to the filing of the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Discuss results of the annual audit and quarterly review and any other matters required to be communicated to the Committee by the independent auditor under generally accepted auditing standards. Discuss with management and the independent auditor their judgment about the quality of accounting principles, the reasonableness of significant judgments, including a description of any transactions as to which the management obtained Statement on Auditing Standards No. 50 letters, and the clarity of disclosures in the financial statements, including the Company's disclosures of critical accounting policies and other disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(g) Review, or establish standards for the type of information and the type of presentation of such information to be included in, earnings press releases and earnings guidance provided to analysts and rating agencies.

(h) Oversee the Company's compliance with the Foreign Corrupt Practices Act.

(i) Review material pending legal proceedings involving the Company and other contingent liabilities.

(j) Meet, periodically, with the CEO, CFO, the senior internal auditing executive and the independent auditor in separate executive sessions to discuss results of examinations. In connection with and prior to giving their required certifications, the CEO and CFO must disclose to the auditors and the Committee all significant deficiencies and material weaknesses in the design or operation of internal controls, and any fraud that involves management or other employees who have a significant role in the company's internal controls.

(k) Discuss with the independent auditor the matters required to be communicated to audit committees in accordance with Statement on Auditing Standards No. 61.

(l) Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees or contractors of concerns regarding questionable accounting or accounting matters.

5.3. *Other Responsibilities.*

(a) Review adequacy of this audit committee charter annually and submit charter to Board of Directors for approval.

(b) Prepare report for inclusion in the Company's annual proxy statement as required by the rules of the Securities and Exchange Commission.

(c) Put in place an appropriate control process for reviewing and approving Company's internal transactions and accounting.

(d) Perform any other activities consistent with the Company's Articles of Incorporation and By-laws and applicable law, rules and regulations as the Board of Directors or the Audit Committee shall deem appropriate, including holding meetings with the Company's investment bankers and financial analysts.

6. *Authority and Resources of the Audit Committee.* The Committee has the authority to retain legal, accounting or other experts that it determines to be necessary to carry out its duties. It also has authority to determine compensation for such advisors, as well as for the independent auditor. The Committee may determine appropriate funding needs for its own ordinary administrative expenses that are necessary and appropriate to carrying out its duties.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended May 28, 2006,

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)

California	**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
None	None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock
(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 ☑

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 ☑

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 ☑ No ☐

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

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

Large Accelerated Filer ☐ Accelerated Filer ☑ Non Accelerated Filer ☐

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $130,470,000 as of November 27, 2005, the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sales price on The NASDAQ Global 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 7, 2006, there were 24,935,046 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its October 2006 Annual Meeting of Shareholders, 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 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.

General

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

The principal products and services offered by the Company in its two core businesses — Food Products Technology and Agricultural Seed Technology — and in the Technology Licensing/Research and Development business are described below. Financial information concerning the industry segments for which the Company reported its operations during fiscal years 2004, 2005 and 2006 is summarized in Note 14 to the Consolidated Financial Statements.

Landec's Food Products Technology business, operated through its subsidiary Apio, Inc., 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 1999 when the Company acquired Apio, Inc. and certain related entities (collectively "Apio").

Landec's Agricultural Seed Technology business, operated through its subsidiary Landec Ag, Inc. ("Landec Ag"), combines Landec's proprietary Intellicoat® seed coating technology with its unique direct marketing and consultative selling capabilities which it obtained with its acquisition of Fielder's Choice Direct ("Fielder's Choice"), a direct marketer of hybrid seed corn, in 1997. In August 2005, Landec Ag acquired the assets of Heartland Hybrids, Inc. ("Heartland Hybrids") and has combined the Heartland Hybrids® brand with its Fielder's Choice® brand to sell seed corn, alfalfa and soybeans.

In addition to its two core businesses, the Company also operates a Technology Licensing/Research and Development business that licenses products to, and conducts joint research and development with industry leaders outside of Landec's core businesses, such as Air Products and Chemicals, Inc. ("Air Products"). The Company also engages in research and development activities and supplies products based on its Intelimer® polymer technology to companies such as Akzo Nobel and L'Oreal of Paris (these supply activities are included in the technology fields licensed to Air Products). For segment disclosure purposes, the Technology Licensing/Research and Development business is included in Corporate and Other (in Note 14 to the Consolidated Financial Statements).

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

The Company was incorporated in California on October 31, 1986. The Company completed its initial public offering in 1996 and is listed on The NASDAQ Global Market (formerly the Nasdaq National Market) under the symbol "LNDC".

Technology Overview

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 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 of 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.

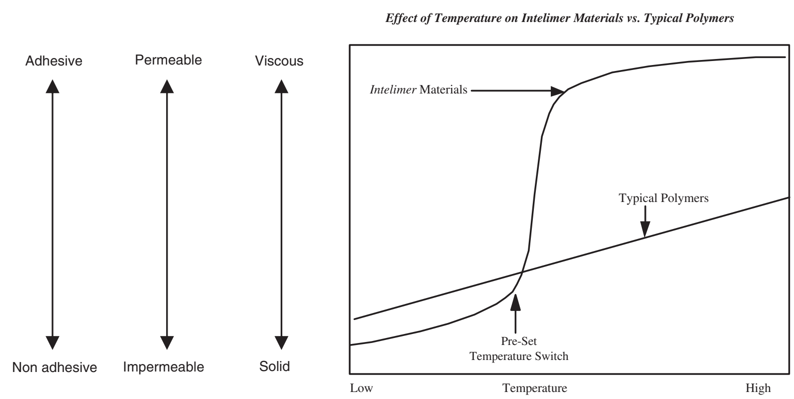


Figure 1.

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 repeatedly reversible. Landec can set the polymer switch temperature anywhere between 0°C to 100°C by varying the length of the side chains. The reversible transitions between crystalline and amorphous states are illustrated in *Figure 2* below.

Intelimer Materials' Temperature Switch

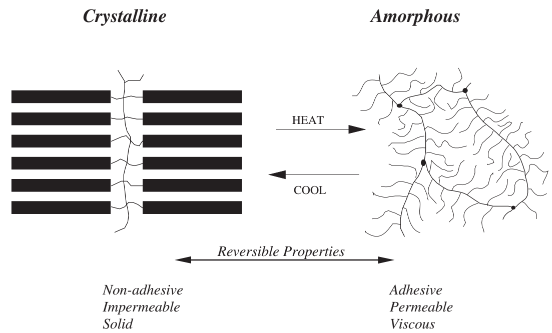


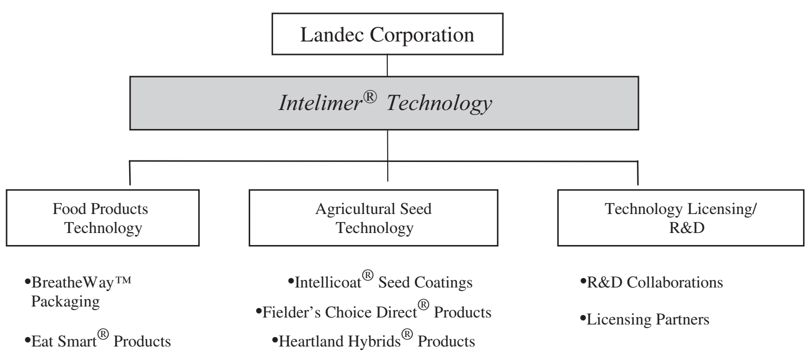
Figure 2

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 drugs 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-1994.

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.

Description of Core Business

The Company participates in two core business segments — Food Products Technology and Agricultural Seed Technology. In addition to these two core segments Landec licenses technology and conducts ongoing research and development and supplies materials through its Technology Licensing/Research and Development Business.



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, one of the fastest growing segments in the produce industry.

Landec's proprietary BreatheWay packaging technology when combined with fresh-cut or whole produce results in packaged produce with increased shelf life and reduced shrink (waste) without the need for ice during the distribution cycle. The resulting 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 state-of-the-art fresh-cut produce processing technology and year-round access to specialty packaged produce products which Apio distributes to the top U.S. retail grocery chains, major club stores and to the foodservice industry. The Company's proprietary BreatheWay packaging business has been combined with Apio into a subsidiary that retains the Apio, Inc. 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 and Market Opportunity: Proprietary Intelimer Packaging Technology

Certain types of fresh-cut and whole produce can spoil or discolor rapidly when packaged in conventional packaging materials and are therefore 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 pre-washed, cut 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 between $100 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, safety and nutritious produce delivered to the point of sale. According to the International Fresh-Cut Produce Association, the fresh-cut produce market is one of the highest growth areas in retail grocery stores.

Although fresh-cut produce companies have had success in the salad market, the industry has been slow to diversify into other fresh-cut vegetables or fruits due primarily to limitations in film and plastic tray materials used to package fresh-cut produce. After harvesting, vegetables and fruit continue to respire, consuming oxygen and releasing carbon dioxide. Too much or too little oxygen can result in premature spoilage and decay and, in some cases, promote the growth of microorganisms that jeopardize inherent food safety. 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. The challenge facing the industry is to develop packaging for the high respiring, high value and shelf life sensitive vegetable and fruit markets. The Company believes that today's conventional packaging films face numerous challenges in adapting to meet the diversification of pre-cut vegetables and fruit evolving in the industry without compromising shelf life and produce quality. To mirror the growth experienced in the fresh-cut salad market, the markets for high respiring vegetables and fruit such as broccoli, cauliflower, asparagus, papayas, bananas and berries will require a more versatile and sophisticated packaging solution for which the Company's BreatheWay packaging technology was developed.

The respiration rate of produce also varies with temperature. As temperature increases, produce generally respires at a higher rate, which speeds up the aging process, resulting in shortened shelf life and increased potential for decay, spoilage, and loss of texture and dehydration. As produce is transported from the processing plant through the refrigerated distribution chain to foodservice locations, retail grocery stores and club stores, and finally to the ultimate consumer, temperatures can fluctuate significantly. Therefore, temperature control is a constant challenge in preserving the quality of fresh-cut and whole produce — a challenge few current packaging films can fulfill. The Company believes that its temperature-responsive BreatheWay packaging technology is well suited to the challenges of the produce distribution process.

Using its Intelimer polymer technology, Landec has developed packaging technology that it believes addresses many of the shortcomings of conventional packaging materials. A 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.
- *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.
- *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. The temperature responsiveness of these membranes allows ice to be removed from the distribution system which results in numerous benefits. These benefits include (1) a substantial decrease in freight cost, (2) reduced risk of contaminated produce because ice can be a carrier of micro organisms, (3) the elimination of expensive waxed cartons that cannot be recycled, and (4) the potential decrease in work related accidents due to melted ice.

Landec believes that growth of the overall produce market will be driven by the increasing demand for the convenience 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 food 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: Apio, Inc.

Apio had revenues of approximately $195 million for the fiscal year ended May 28, 2006, $179 million for the fiscal year ended May 29, 2005 and $168 million for the fiscal year ended May 30, 2004.

Based in Guadalupe, California, Apio, when acquired in 1999, consisted of two major businesses — first, the "fee-for-service" selling and marketing of whole produce and second, the specialty packaged fresh-cut and whole value-added processed products that are washed and packaged in our proprietary BreatheWay packaging. The "fee-for-service" business historically included field harvesting and packing, cooling and marketing of vegetables and fruit on a contract basis for growers in California's Santa Maria, San Joaquin and Imperial Valleys as well as in Arizona and Mexico. The Company exited this business and certain assets associated with the business were sold in June 2003 to Beachside Produce, LLC (formerly known as Apio Fresh). Beachside Produce is owned by a group of entities and persons that supply produce to Apio, including Nicholas Tompkins, Apio's President and Chief Executive Officer. Under the terms of the sale, Beachside Produce purchased certain equipment and carton inventory from Apio in exchange for approximately $410,000. In connection with the sale, Beachside Produce will pay Apio an on-going royalty fee per carton sold for the use of Apio's brand names and Beachside Produce and its owner growers entered into a long-term supply agreement with Apio to supply produce to Apio for its fresh-cut value-added business. The fresh-cut value-added processed products business, developed within the last ten years, markets a variety of fresh-cut and whole vegetables to the top retail grocery chains and club stores. During the fiscal year ended May 28, 2006, Apio shipped nearly seventeen million cartons of produce to leading supermarket retailers, wholesalers, foodservice suppliers and club stores throughout the United States and internationally, primarily in Asia.

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

- *Value-Added Supplier:* Apio has structured its business as a marketer and seller of fresh-cut and whole value-added produce. It is focused on developing its Eat Smart® brand and other brands for all of its fresh-cut and whole value-added products. As retail grocery and club store chains consolidate, Apio is well positioned as a single source of a broad range of products.

- *Reduced Farming Risks:* Apio reduces its farming risk by not taking ownership of farmland, and instead, contracts with growers for produce. The year-round sourcing of produce is a key component to the fresh-cut and whole value-added processing business.

- *Lower Cost Structure:* Apio has strategically invested in the rapidly growing fresh-cut and whole value-added business. Apio's 60,000 square foot value-added processing plant is automated with state-of-the-art vegetable processing equipment. Virtually all of Apio's value-added products utilize Landec's proprietary BreatheWay packaging technology. Apio's strategy is to operate one large central processing facility in one of California's largest, lowest cost growing regions (Santa Maria Valley) and use packaging technology to allow for the nationwide delivery of fresh produce products.

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

- *Expanded Product Line Using Technology:* Apio, through the use of its BreatheWay packaging technology, is introducing on average fifteen new value-added products each year. These new product offerings range from various sizes of fresh-cut bagged products, to vegetable trays, to whole produce, to meal lines of products, to side dish lines of products. During fiscal year 2006 Apio introduced 19 new products.

Apio established in May 2005 its Apio Tech division to advance the sales of BreatheWay packaging technology for shelf-life sensitive vegetables and fruit, including unique packaging solutions for produce in large packages including shipping and pallet-sized containers.

For the past ten years, the Company has marketed its Eat Smart fresh-cut bagged vegetables, trays and iceless products using its BreatheWay packaging technology and has now expanded its technology to include packaging for bananas. In September 2004, Apio entered into an agreement with Chiquita whereby Apio will supply Chiquita with its proprietary banana packaging technology on a worldwide basis for the ripening, conservation and shelf-life extension of bananas in selective applications on an exclusive basis and for other applications on a non-exclusive basis. In addition, Apio will provide Chiquita with ongoing research and development, 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 annual minimum purchase thresholds of BreatheWay banana packages.

The initial market focus for the BreatheWay banana packaging technology using Chiquita® Brand bananas will be commercial outlets that normally do not sell bananas because of their short shelf-life — outlets such as quick serve restaurants, convenience stores, drug stores and coffee chain outlets.

In addition to the introduction of specialty packaging for bananas, the Company is selling its BreatheWay packaging technology for case liner packaging for bunch and crown broccoli, eighteen pound cases of loose broccoli florets, Asian cut broccoli crowns and export cut broccoli crowns.

The Company's specialty packaging for case liner products reduces freight expense up to 50% by eliminating the weight and space consumed by ice. In addition to reducing the cost of freight, the removal of ice from the distribution system offers additional benefits as outlined above.

Product enhancements in the fresh-cut vegetable line include fresh-cut vegetable trays designed to look like they were freshly made in the retail grocery store or at home. The rectangular tray design is convenient for storage in consumers' refrigerators and expands the Company's wide-ranging vegetable tray line.

In fiscal year 2006, sales of the value-added vegetable tray line grew 22%, and according to A.C. Nielsen, for the three months ended March 31, 2006, the Company's market share for sales of vegetable trays to retail grocery stores in the U.S. was 46%.

Foster Farms recently launched a new meal line that combines fresh cut vegetables and chicken which uses the Company's BreatheWay technology. In addition, the Company is in market tests for new lines of fresh cut vegetable side dishes and vegetable salads.

Agricultural Seed Technology Business

Landec Ag's strategy is to build a vertically integrated seed technology company based on its proprietary Intellicoat seed coating technology and its direct marketing and consultative selling capabilities.

The Technology and Market Opportunity: Intellicoat Seed Coatings

Landec has developed and, through Landec Ag, is commercially selling its Intellicoat seed coatings, an Intelimer-based agricultural material designed to control seed germination timing, increase crop yields and extend crop planting windows. These coatings are being applied to corn and soybean seeds. According to the U.S. Agricultural Statistics Board, the total planted acreage in 2006 in the United States for corn and soybean seed was approximately 78 million and 77 million, respectively.

For the coating technology the strategy is to develop a patented, functional polymer coating technology that will be broadly licensed to the seed industry. The company will initially commercialize products for the corn and soybean markets and then broaden its applications to other seed crops. Landec Ag will use its Fielder's Choice Direct marketing and sales company to launch its applications for corn to build awareness for this technology and then broadly license its applications to the rest of the industry.

Landec Ag'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 2006 Pollinator Plus was used by 35 seed companies on approximately 15% of the seed production acres in the U.S.

In 2003, Landec Ag commercialized Early Plant® corn, its seed coating application for hybrid corn, by selling the product directly to farmers through its Fielder's Choice Direct® brand. This application allows farmers to plant into cold soils without the risk of chilling injury, and enables farmers to plant as much as four weeks earlier than normal. With this capability, farmers are able to utilize labor and equipment more efficiently, provide flexibility during the critical planting period and avoid yield losses caused by late planting. In 2006, nine seed companies offered Intellicoat on their hybrid seed corn offerings.

The third commercial application for seed coating is the Relay™ Cropping system of wheat and Intellicoat coated soybeans, which allows farmers to plant and harvest two crops in the same year on the same ground in geographic areas where double cropping is usually not possible. This provides significant financial benefit especially to farmers in the Corn Belt who grow wheat as a single crop.

The Business: Landec Ag

Landec Ag had sales of approximately $34.1 million for the fiscal year ended May 28, 2006, $25.6 million for the fiscal year ended May 29, 2005 and $23.6 million for the fiscal year ended May 30, 2004.

On August 29, 2005, Landec Ag closed the acquisition of Heartland Hybrids, Inc., the second largest direct marketer of seed corn after Landec Ag's Fielder's Choice Direct brand. With complementary strengths in geographic areas and sales channels, the new combined organization has the opportunity to develop the most efficient and effective sales, marketing and distribution system in the seed industry, expanding Landec Ag's sales of both uncoated seed and Intellicoat coated seed.

Based in Monticello, Indiana, Landec Ag offers a comprehensive line of corn hybrids and alfalfa to more than 12,500 farmers in over forty states through direct marketing programs. The success of Landec Ag comes, in part, from its expertise in selling directly to the farmer, bypassing the traditional and costly farmer-dealer system. We believe that this direct channel of distribution provides up to a 35% cost advantage compared to the farmer-dealer system.

In order to support its direct marketing programs, Landec Ag has developed a proprietary direct marketing, and consultative selling information technology that enables state-of-the-art methods for communicating with a broad array of farmers. This proprietary direct marketing information technology includes a current database of over 163,000 farmers.

The acquisitions by Landec Ag of Fielder's Choice in 1997 and Heartland Hybrids in 2005 were strategic in providing a cost-effective vehicle for marketing Intellicoat seed coating products. The Company believes that the combination of coating technology and a direct channel of distribution, telephonic and electronic commerce capabilities will enable Landec Ag to more quickly achieve meaningful market penetration.

Technology Licensing/Research and Development Businesses

We believe our technology has commercial potential in a wide range of industrial, consumer and medical applications beyond those identified in our core businesses. For example, our core patented technology, Intelimer materials, can be used to trigger 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 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 a licensing agreement with Air Products. The Company has also developed Intelimer polymer materials useful in enhancing the formulating options for various personal care products. The rights to develop and sell Landec's latent catalysts and personal care technologies were licensed to Air Products in March 2006. Landec's pressure sensitive adhesives ("PSA") technology is currently being evaluated in a variety of industrial and medical applications where strong adhesion to a substrate (i.e. steel, glass, silicon, skin, etc.) is desired for a defined time period and upon thermal triggering, results in a significant peel strength reduction. For example, select PSA systems exhibit greater than 90% reduction in peel strength upon warming, making them ideal for applications on fragile substrates.

Personal Care and Cosmetic Applications

Landec's personal care and cosmetic applications strategy is focused on supplying Intelimer materials to industry leaders for use in lotions and creams, and potentially color cosmetics, lipsticks and hair care. The Company's partner, Air Products, is currently shipping products to L'Oreal of Paris for use in lotions and creams. Sales of Landec materials used in L'Oreal products have not been material to the Company's financials.

Medical Applications

On December 23, 2005, Landec entered into an exclusive licensing agreement with a medical device company. This company paid Landec an upfront license fee of $250,000 for the exclusive rights to use Landec's Intelimer materials technology in a specific device field worldwide. Landec will also receive royalties on the sale of products incorporating Landec's technology. In addition, the Company has received shares of preferred stock valued at $1.3 million which represents a 19.9% ownership interest in the medical device company. At this time, the Company is unable to predict the ultimate outcome of the collaboration with the medical device company and the timing or amount of future revenues, if any.

Sales and Marketing

Each of the Company's core businesses are 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 year 2006, sales to the Company's top five customers accounted for approximately 46% of its revenues, with the top customer, Costco Wholesale Corp., accounting for approximately 16% of the Company's revenues.

Food Products Technology Business

Apio has 18 sales people, located in central California and throughout the U.S., supporting the export business and the specialty packaged value-added produce business.

Agricultural Seed Technology Business

Landec Ag utilizes 49 seed sales consultants and associates located in Monticello, Indiana and Dassel, Minnesota for its direct marketing of seed corn and Intellicoat coated products. Customer contacts are made based on direct responses and inquiries from customers.

Seasonality

The Company's sales are moderately seasonal. Historically, our direct marketer of hybrid corn seed, Landec Ag, has seen its revenues and profits concentrated over a few months during the spring planting season (generally during the Company's third and fourth quarters). In addition, Apio can be heavily affected by seasonal weather factors which have impacted quarterly results, such as high cost of sourcing product in December 2003, January 2004 and March/April 2005 due to a shortage of essential value-added produce items.

Manufacturing and Processing

Landec intends to control the manufacturing of its own products whenever possible, as it believes that there is considerable manufacturing margin opportunity in its products. In addition, the Company believes that know-how and trade secrets can be better maintained by Landec retaining some manufacturing capabilities in-house.

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. 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 company in which Apio has a 60% ownership interest and is the general partner.

Agricultural Seed Technology Business

The Company performs its batch 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.

The Company has a pilot manufacturing facility in Indiana to support the commercialization of its Early Plant corn and for its Relay Cropping System for wheat/coated soybean products. This facility utilizes a continuous coating process that has increased seed coating capabilities by tenfold compared to the previous system using batch coaters. Landec Ag contracts for production of its hybrid seed corn from established seed producers.

General

Many of the raw materials used in manufacturing certain of the Company's products are currently purchased from a single source, including certain monomers used to synthesize Intelimer polymers and substrate materials for the Company's breathable membranes. In addition, a large majority of the hybrid corn varieties sold by Landec Ag are sourced from a single seed producer. Upon manufacturing scale-up of seed coating operations and as hybrid corn sales increase, 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 nor has Landec Ag experienced difficulty in acquiring hybrid corn varieties, 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 or hybrid corn varieties 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 Intelimer technology. Expenditures for research and development for the fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004 were $3.0 million, $2.5 million and $3.5 million, respectively. Research and development expenditures funded by corporate partners were $100,000 for fiscal year ended May 28, 2006, $20,000 for the fiscal year ended May 29, 2005 and $173,000 for the fiscal year ended May 30, 2004. 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 28, 2006, Landec had 23 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 packaging and agricultural 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 twenty-five active U.S. patents with expiration dates ranging from 2009 to 2021 and has filed applications for additional U.S. patents, as well as certain corresponding patent applications outside the United States, relating to the Company's technology. The Company's issued 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.

Employees

As of May 28, 2006, Landec had 186 full-time employees, of whom 50 were dedicated to research, development, manufacturing, quality control and regulatory affairs and 136 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 relationships with its employees are 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, as well as other factors including, without limitation, those described elsewhere in this report, could in the future affect, and in the past have affected, Landec's actual results and could cause Landec's results for future periods to differ materially from those expressed in any forward-looking statements made by or on behalf of Landec. Landec assumes no obligation to update such forward-looking statements.

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

In the past, our results of operations have fluctuated significantly from quarter to quarter and are expected to continue to fluctuate in the future. Historically, our 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 our third and fourth fiscal quarters). In addition, Apio can be heavily affected by seasonal and weather factors which have impacted quarterly results, such as the high cost of sourcing product in December 2003, January 2004 and March/April 2005 due to a shortage of essential value-added produce items. Our earnings may also fluctuate based on our ability to collect accounts receivables from customers and note receivables from growers and on price fluctuations in the fresh vegetables and fruits markets. Other factors that affect our food and/or agricultural operations include:

- the seasonality of our supplies;
- our ability to process produce during critical harvest periods;
- the timing and effects of ripening;
- the degree of perishability;
- the effectiveness of worldwide distribution systems;
- total worldwide industry volumes;
- the seasonality of consumer demand;

- foreign currency fluctuations; and
- foreign importation restrictions and foreign political risks.

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

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

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

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

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

We Face Strong Competition in the Marketplace

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

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

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

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

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

We May Be Unable to Adequately Protect Our Intellectual Property Rights

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

Our Operations Are Subject to Regulations that Directly Impact Our Business

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

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

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

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

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

Our Food Products 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, earthquakes and hurricanes, may adversely affect the supply of vegetables and fruits used in our business, which could reduce the sales volumes and/or increase the unit production costs. Because a significant portion of the costs are fixed and contracted in advance of each operating year, volume declines due to production interruptions or other factors could result in increases in unit production costs which could result in substantial losses and weaken our financial condition.

We Depend on Strategic Partners and Licenses for Future Development

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

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

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

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

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

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

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

For the fiscal year ended May 28, 2006, approximately 22% 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 2006, sales to our top five customers accounted for approximately 46% of our revenues, with our largest customers, Costco Wholesale Corp. and Sam's Club, accounting for approximately 16% and 14%, respectively, of our revenues. We expect that, for the foreseeable future, a limited number of customers may continue to account for a substantial portion of our net revenues. We may experience changes in the composition of our customer base as we have experienced in the past. We do not have long-term purchase agreements with any of our customers. The reduction, delay or cancellation of orders from one or more major customers for any reason or the loss of one or more of our major customers could materially and adversely affect our business, operating results and financial condition. In addition, since some of the products processed by Apio at its Guadalupe, California facility are sole sourced to its customers, our operating results could be adversely affected if one or more of our major customers were to develop other sources of supply. Our current customers may not continue to place orders, orders by existing customers may be canceled or may not continue at the levels of previous periods or we may not be able to obtain orders from new customers.

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

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

Our Stock Price May Fluctuate in Accordance with Market Conditions

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

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

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

Since We Order Cartons and Film for Our Products from Suppliers in Advance of Receipt of Customer Orders for Such Products, We Could Face a Material Inventory Risk

As part of our inventory planning, we enter into negotiated orders with vendors of cartons and film used for packing our products in advance of receiving customer orders for such products. Accordingly, we face the risk of ordering too many cartons and film since orders are generally based on forecasts of customer orders rather than actual orders. If we cannot change or be released from the orders, we may incur costs as a result of inadequately predicting cartons and film orders in advance of customer orders. Because of this, we may have an oversupply of cartons and film and face the risk of not being able to sell such inventory and our anticipated reserves for losses may be inadequate if we have misjudged the demand for our products. Our business and operating results could be adversely affected as a result of these increased costs.

Our Seed Products May Fail to Germinate Properly and We May Be Subject to Claims for Reimbursement or Damages for Losses from Customers Who Use Such Products

Farmers plant seed products sold by Landec Ag with the expectation that they will germinate under normal growing conditions. If our seed products do not germinate at the appropriate time or fail to germinate at all, our customers may incur significant crop losses and seek reimbursement or bring claims against us for such damages. Although insurance is generally available to cover such claims, the costs for premiums of such policies are prohibitively expensive and we currently do not maintain such insurance. Any claims brought for failure of our seed products to properly germinate could materially and adversely affect our operating and financial results.

Recently Enacted Changes in Securities Laws and Regulations Have and Will Continue to Increase Our Costs

The Sarbanes-Oxley Act of 2002 (the "Act") that became law in July 2002 required changes in some of our corporate governance, public disclosure and compliance practices. In addition, Nasdaq has made revisions to its requirements for companies, such as Landec, that are listed on The NASDAQ Global Market. These developments have increased our legal and financial compliance costs. These changes could make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These developments could make it more difficult for us to attract and retain qualified members for our board of directors, particularly to serve on our audit committee.

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

Our executive officers and directors and their affiliates own or control approximately 23% of our common stock (including options exercisable within 60 days). Accordingly, these officers, directors and shareholders may have the ability to exert significant influence over the election of our Board of Directors, the approval of amendments to our articles and bylaws and the approval of mergers or other business combination transactions requiring shareholder approval. This concentration of ownership may have the effect of delaying or preventing a merger or other business combination transaction, even if the transaction or amendments would be beneficial to our other shareholders. In addition, our controlling shareholders may approve amendments to our articles or bylaws to implement anti-takeover or management friendly provisions that may not be beneficial to our other shareholders.

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

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

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

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

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

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

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

We Have Never Paid any Dividends on Our Common Stock

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

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

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

1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

The Company owns or leases properties in Menlo Park, Arroyo Grande and Guadalupe, California; West Lebanon, Oxford and Monticello, Indiana; Danville, Illinois; Dassel, Minnesota and Kinsman, Ohio.

These properties are described below:

Location	Business Segment	Ownership	Facilities	Acres of Land	Lease Expiration
Menlo Park, CA	Other	Leased	10,400 square feet of office and laboratory space	—	12/31/06
Monticello, IN	Agricultural Seed Technology	Owned	19,400 square feet of office space	0.5	—
West Lebanon, IN	Agricultural Seed Technology	Owned	4,000 square feet of warehouse and manufacturing space	—	—
Oxford, IN	Agricultural Seed Technology	Leased	13,400 square feet of laboratory and manufacturing space	—	6/30/06
Danville, IL	Agricultural Seed Technology	Leased	200,000 square feet of warehouse space	—	12/31/08
Dassel, MN	Agricultural Seed Technology	Leased	4,600 square feet of office space	—	5/31/08
Dassel, MN	Agricultural Seed Technology	Leased	35,200 square feet of warehouse space	—	5/31/08
Dassel, MN	Agricultural Seed Technology	Leased	7,200 square feet of vehicle maintenance shop space	—	5/31/08
Kinsman, OH	Agricultural Seed Technology	Leased	6,600 square feet of warehouse space	—	08/1/07
Guadalupe, CA	Food Products Technology	Owned	106,000 square feet of office space, manufacturing and cold storage	17.7	—
Arroyo Grande, CA	Food Products Technology	Leased	1,100 square feet of office space	—	6/30/08

There are bank liens encumbering all of the Company's owned land and buildings.

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 would result in the payment of any amounts that would be material to the business or financial condition of the Company.

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

There were no matters submitted to a vote of security holders during the fourth quarter of the Company's fiscal year ended May 28, 2006.

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

Fiscal Year Ended May 28, 2006	High	Low
4th Quarter ending May 28, 2006	$9.65	$6.71
3rd Quarter ending February 26, 2006	$7.84	$6.23
2nd Quarter ending November 27, 2005	$8.01	$6.32
1st Quarter ending August 28, 2005	$6.98	$6.66

Fiscal Year Ended May 29, 2005	High	Low
4th Quarter ending May 29, 2005	$8.25	$5.77
3rd Quarter ending February 27, 2005	$7.72	$6.00
2nd Quarter ending November 28, 2004	$8.00	$4.50
1st Quarter ending August 29, 2004	$7.40	$4.28

Holders

There were approximately 84 holders of record of 24,935,046 shares of outstanding Common Stock as of July 7, 2006. Since certain holders are listed under their brokerage firm's names, the actual number of shareholders 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.

Unregistered Sales of Equity Securities

Pursuant to the Asset Purchase Agreement dated June 29, 2005, the Company on August 29, 2005 issued 152,186 shares of Common Stock valued at $960,000 to the former owners of Heartland Hybrids, Inc.

The issuance of these securities was deemed to be exempt from registration under the Securities Act of 1933, as amended (the "Act"), in reliance on Section 4(2) of the Act as a transaction by an issuer not involving any public offering. The recipients of the securities in such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and also represented that each is an "accredited investor" with the meaning of Rule 501(a) of Regulation D under the Act. Appropriate legends were affixed to the securities issued in such transaction. The recipients were given adequate access to information about the Company.

Issuer Purchases of Equity Securities

There were no shares repurchased by the Company during the quarter ending on May 28, 2006.

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.

	Year Ended May 28, 2006	Year Ended May 29, 2005	Year Ended May 30, 2004	Seven Months Ended May 25, 2003	Seven Months Ended June 2, 2002 (Unaudited)	Year Ended October 27, 2002	Year Ended October 28, 2001
				(In thousands)			
Statements of Operations Data:							
Revenues:							
Product sales	$225,404	$201,020	$185,664	$ 98,689	$ 96,513	$152,958	$141,314
Services revenue	3,725	3,704	5,791	12,784	15,882	26,827	48,429
License fees	2,398	88	88	357	1,274	2,330	374
Research, development and royalty revenues	426	418	549	429	402	1,040	529
Total revenues	231,953	205,230	192,092	112,259	114,071	183,155	190,646
Cost of revenue:							
Cost of product sales	188,904	170,359	158,911	82,339	80,680	131,352	122,081
Cost of services revenue	3,005	2,899	3,390	9,216	12,505	20,463	40,751
Total cost of revenue	191,909	173,258	162,301	91,555	93,185	151,815	162,832
Gross profit	40,044	31,972	29,791	20,704	20,886	31,340	27,814
Operating costs and expenses:							
Research and development	3,042	2,543	3,452	2,118	2,018	3,532	3,270
Selling, general and administrative	27,979	23,412	22,284	15,185	16,293	26,114	27,398
Exit of domestic commodity vegetable business	—	—	—	1,095	—	—	—
Total operating costs and expenses	31,021	25,955	25,736	18,398	18,311	29,646	30,668
Operating profit (loss)	9,023	6,017	4,055	2,306	2,575	1,694	(2,854)
Interest income	633	214	164	144	177	247	617
Interest expense	(452)	(414)	(811)	(642)	(1,097)	(1,551)	(2,789)
Minority interest expense	(529)	(411)	(537)	(235)	(224)	(525)	(28)
Other (expense)/income, net	(24)	(4)	29	218	71	336	216
Income (loss) from continuing operations	8,651	5,402	2,900	1,791	1,502	201	(4,838)
Discontinued Operations:							
Loss from discontinued operations	—	—	—	—	—	—	(537)
Loss on disposal of operations	—	—	—	—	—	(1,688)	(2,500)
Loss from discontinued operations	—	—	—	—	—	(1,688)	(3,037)
Net income (loss)	$ 8,651	$ 5,402	$ 2,900	$ 1,791	$ 1,502	$ (1,487)	$ (7,875)
Net income (loss)	$ 8,651	$ 5,402	$ 2,900	$ 1,791	$ 1,502	$ (1,487)	$ (7,875)
Dividends on Series B preferred stock	—	—	(464)	(219)	(202)	(412)	—
Net income (loss) applicable to common shareholders	$ 8,651	$ 5,402	$ 2,436	$ 1,572	$ 1,300	$ (1,899)	$ (7,875)

The gain of $436,000 in fiscal year 2002 on the sale of the fruit processing facility has been reclassified as it appears in prior filings from other income to selling, general and administrative expenses.

	Year Ended May 28, 2006	Year Ended May 29, 2005	Year Ended May 30, 2004	Seven Months Ended May 25, 2003	Seven Months Ended June 2, 2002 (Unaudited)	Year Ended October 27, 2002	Year Ended October 28, 2001
	(In thousands, except per share data)						
Statements of Operations Data:							
Basic net income (loss) per share:							
Continuing operations	$ 0.35	$ 0.23	$ 0.11	$ 0.08	$ 0.07	$ (0.01)	$ (0.29)
Discontinued operations	—	—	—	—	—	(0.09)	(0.19)
Basic net income (loss) per share	$ 0.35	$ 0.23	$ 0.11	$ 0.08	$ 0.07	$ (0.10)	$ (0.48)
Diluted net income (loss) per share:							
Continuing operations	$ 0.32	$ 0.21	$ 0.12	$ 0.07	$ 0.06	$ (0.01)	$ (0.29)
Discontinued operations	—	—	—	—	—	(0.09)	(0.19)
Diluted net income (loss) per share	$ 0.32	$ 0.21	$ 0.12	$ 0.07	$ 0.06	$ (0.10)	$ (0.48)
Shares used in per share computation:							
Basic	24,553	23,705	21,396	20,948	17,777	18,172	16,371
Diluted	25,657	24,614	23,556	22,626	21,082	18,172	16,371

	May 28, 2006	May 29, 2005	May 30, 2004	May 25, 2003	October 27, 2002	October 28, 2001
	(In thousands)					
Balance Sheet Data:						
Cash and cash equivalents	$ 20,519	$ 12,871	$ 6,458	$ 3,699	$ 7,849	$ 8,695
Total assets	119,025	100,075	93,007	96,887	107,803	120,122
Debt	2,018	3,088	8,996	13,494	17,543	33,416
Convertible preferred stock	—	—	—	5,531	14,461	14,049
Accumulated deficit	(41,239)	(49,890)	(55,292)	(57,728)	(59,300)	(57,401)
Total shareholders' equity	$ 85,049	$ 72,060	$ 61,549	$ 57,903	$ 55,963	$ 49,839

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; Intelimer packaging technology for the fresh-cut and whole produce packaging market, in September 1995; Intelimer Polymer Systems in June 1997 that includes polymer materials for various industrial applications and beginning in November 2003 for personal care applications; and Intellicoat coated corn seeds in the Fall of 1999.

With the acquisition of Apio in December 1999 and Landec Ag in September 1997, the Company is focused on two core businesses — Food Products Technology and Agricultural Seed Technology. The Food Products Technology segment combines the Company's Intelimer packaging technology with Apio's fresh-cut and whole produce business. The Agricultural Seed Technology segment integrates the Intellicoat seed coating technology with Landec Ag's direct marketing, telephone sales and distribution capabilities. The Company also operates a Technology Licensing/Research and Development business which develops products to be licensed outside of the Company's core businesses. See "Business — Description of Core Business".

From inception through May 28, 2006, the Company's accumulated deficit was $41.2 million. The Company 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 the Company will be able to sustain profitability in future years.

Critical Accounting Policies and Use of Estimates

Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances.

Notes and Advances Receivables

Apio has made advances to fruit growers for the development of orchards, and to produce growers for crop and harvesting costs. Typically, except for development advances, these advances are paid off within the growing season (less than one year) from harvested crops. Development advances and 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 twelve to sixty 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 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 note or advance receivable and the estimated losses would rise in the current period, potentially to the extent of the total note or advance receivable.

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 low risks related to the fact that the Company's customers are predominantly large financially sound national and regional retailers.

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 considered to be useable.

Revenue Recognition

Revenue from product sales is recognized when there is persuasive evidence that an arrangement exists, title has transferred, the price is fixed and determinable, and collectibility is reasonably assured. Allowances are established for estimated uncollectible amounts, product returns, and discounts. If actual future returns and allowances differ from past experience, additional allowances may be required.

Licensing revenue is recognized in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition (a replacement of SAB 101)*, (SAB 104). Initial license fees are deferred and amortized over the period of the agreement to revenue when a contract exists, the fee is fixed and determinable, and collectibility is reasonably assured. Noncancellable, nonrefundable license fees are recognized 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.

Prior to November 1, 1999, the Company 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. Effective 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 SAB 104. In the fiscal year ended October 29, 2000, the Company recorded a charge of $1.9 million related to the cumulative effect of the change in accounting principle. The cumulative effect was initially recorded as deferred revenue and has been recognized as recycled revenue over the research and development period or supply period commitment of the agreement. "Recycled" revenue refers to revenue that had previously been recognized as licensing revenue in the Company's financial statements, but as a result of the Company's adoption of SAB 104, was reversed through a cumulative effect of a change in accounting in fiscal year 2000 and has been recognized as revenue over the research and development period and/or the supply period commitment of the agreement, whichever is longer.

In July 2005, the Company amended its supply agreement with Alcon, Inc. ("Alcon") to change the expiration date of the agreement from November 1, 2012 to May 28, 2006. In accordance with SAB 104, the entire amount of the deferred revenue of $638,000 as of May 29, 2005, was recognized as "recycled" revenue during fiscal year 2006.

During the fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004, $638,000, $88,000 and $88,000, respectively, of the related deferred revenue was recognized as "recycled" revenue. As of May 28, 2006, deferred revenue associated with the change in accounting principles described above is zero.

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 Intangible Asset Impairment

The Company is required to evaluate its goodwill and indefinite lived intangible assets for impairment annually. This evaluation incorporates a variety of estimates including the fair value of the Company's operating segments. If the carrying value of an operating segment's assets exceeds the estimated fair value, the Company would likely be required to record an impairment loss, possibly for the entire carrying balance of goodwill and intangible assets. To date, no impairment losses have been incurred.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *"Accounting for Income Taxes,"* 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. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be realized. The Company evaluates quarterly the realizability of its deferred tax assets by assessing the valuation allowance and, if necessary, adjusts the amount of such allowance. The factors used to assess the likelihood of realization include the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Due to the Company's limited tax basis earnings history, the net deferred tax asset at May 28, 2006 has been fully offset by a valuation allowance.

Recent Accounting Pronouncements

Accounting for Stock-Based Compensation

In December 2004, the FASB issued Statement No. 123 (revised 2004), *Share-Based Payment*, or SFAS No. 123R, which is a revision of SFAS No. 123, and supersedes APB Opinion 25. SFAS 123R requires all share-based payments to employees and directors, including grants of stock options, to be recognized in the statement of operations based on their fair values. On April 14, 2005, the SEC adopted a new rule that amended the compliance dates for SFAS 123R such that the Company is now allowed to adopt the new standard effective in the first quarter of fiscal year 2007. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB Opinion 25's intrinsic value method and, as such, recognizes no compensation cost for employee stock options.

Under SFAS 123R, the Company must determine the appropriate fair value model and related assumptions to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods include modified prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive method would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company has decided to adopt the modified prospective method. The Company is currently evaluating the requirements of SFAS 123R as well as option valuation methodologies related to its stock option plans. The Company's preliminary estimate indicates that the effect of adopting SFAS 123R could result in a pre tax charge to net income of up to approximately $500,000 in fiscal year 2007. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation costs to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption.

Results of Operations

Fiscal Year Ended May 28, 2006 Compared to Fiscal Year Ended May 29, 2005

Revenues:

	Fiscal Year Ended May 28, 2006	Fiscal Year Ended May 29, 2005	Change
	(In thousands)		
Apio Value Added	$136,141	$120,445	13%
Apio Trading	57,990	58,660	(1)%
Apio Tech	685	52	1217%
Total Apio	194,816	179,157	9%
Landec Ag	34,096	25,648	33%
Corporate	3,041	425	616%
Total Revenues	$231,953	$205,230	13%

Financials

Apio Value Added

Apio's value-added revenues consist of revenues generated from the sale of specialty packaged fresh-cut and whole value-added processed vegetable products that are washed and packaged in our proprietary packaging and sold under Apio's Eat Smart brand and various private labels and from service revenues from Apio Cooling LP which is now combined with value-added.

The increase in Apio's value-added revenues for the fiscal year ended May 28, 2006 compared to the same period last year is due to increased product offerings, increased sales to existing customers, the addition of new customers and product mix changes to higher priced products. Specifically, sales of Apio's value-added 12-ounce specialty packaged retail product line grew 16% and sales of Apio's value-added vegetable tray products grew 22% during the fiscal year ended May 28, 2006 compared to the same period last year. Overall value-added sales volume increased 10% during the fiscal year ended May 28, 2006 compared to the same period last year.

Apio Trading

Apio trading revenues consist of revenues generated from the purchase and sale of primarily whole commodity fruit and vegetable products to Asia through Apio's export company, Cal-Ex and from the purchase and sale of whole commodity fruit and vegetable products domestically to Wal-Mart. The export portion of trading revenues for fiscal year 2006 was $50.3 million or 87% of total trading revenues.

The decrease in revenues in Apio's trading business for the fiscal year ended May 28, 2006 compared to the same period last year was primarily due to a 23% decrease in the domestic buy/sell commodity sales to Wal-Mart. Overall trading sales volumes were lower by 2% for the fiscal year ended May 28, 2006 compared to the same period last year. The decrease in volumes was partially offset by higher average sales prices due to the scarcity of product during certain months of the year.

Apio Tech

Apio Tech consists of Apio's packaging technology business using its BreatheWay™ membrane technology. The first commercial application included in Apio Tech is the banana packaging technology. Current revenues generated from Apio Tech are primarily from the banana program with Chiquita.

The increase in Apio Tech revenues for the fiscal year ended May 28, 2006 compared to the same period last year was not material to consolidated Landec revenues.

Landec Ag

Landec Ag revenues consist of revenues generated from the sale of hybrid seed corn to farmers under the Fielder's Choice Direct® and Heartland Hybrids® brands and from the sale of Intellicoat coated corn and soybean seeds to farmers and seed companies. For the fiscal years ended May 28, 2006 and May 29, 2005, over 95% of Landec Ag's revenues were from the sale of uncoated hybrid seed corn.

The increase in revenues at Landec Ag during the fiscal year ended May 28, 2006 compared to the same period last year was primarily due to sales under the Heartland Hybrids brand which was acquired on August 29, 2005.

Corporate

Corporate revenues consist of revenues generated from partnering with others under research and development agreements and supply agreements and from fees for licensing our proprietary Intelimer technology to others and from the corresponding royalties from these license agreements.

The increase in Corporate revenues for the fiscal year ended May 28, 2006 compared to the same period of the prior year was primarily due to (1) $1.56 million in revenues received from the license of our Intelimer technology in a specific field to a medical device company in December 2005, (2) $300,000 in licensing fees and research and development revenues from the license of our Intelimer technology in specific fields to Air Products in March 2006 and (3) the recognition of the remaining $550,000 of deferred revenue associated with the Alcon license agreement through the revised agreement termination date of May 28, 2006.

Gross Profit:

	Fiscal Year Ended May 28, 2006	Fiscal Year Ended May 29, 2005	Change
	(In thousands)		
Apio Value Added	$23,022	$19,062	21%
Apio Trading	3,212	3,118	3%
Apio Tech	619	15	4027%
Total Apio	26,853	22,195	21%
Landec Ag	10,439	9,448	10%
Corporate	2,752	329	736%
Total Gross Profit	$40,044	$31,972	25%

General

There are numerous factors that can influence gross profits including product mix, customer mix, manufacturing costs, volume, sale discounts and charges for excess or obsolete inventory, to name a few. Many of these factors influence or are interrelated with other factors. Therefore, it is difficult to precisely quantify the impact of each item individually. The Company includes in cost of sales all the costs related to the sale of products in accordance with generally accepted accounting principles. These costs include the following: raw materials (including produce, seeds and packaging), direct labor, overhead (including indirect labor, depreciation, and facility related costs) and shipping and shipping related costs. The following discussion surrounding gross profits includes management's best estimates of the reasons for the changes for the fiscal year ended May 28, 2006 compared to the same period last year as outlined in the table above.

Apio Value-Added

The increase in gross profits for Apio's value-added specialty packaged vegetable business for the fiscal year ended May 28, 2006 compared to the same period last year was due to (1) the increase in value-added sales which increased 13% during fiscal year 2006, (2) product mix changes to higher margin products and

(3) improved operational efficiencies driven largely by improved raw material quality during fiscal year 2006 compared to the prior fiscal year.

Apio Trading

Apio's trading business is a buy/sell business that realizes a commission-based margin in the 4-6% range. The increase in gross profits during the fiscal year ended May 28, 2006 compared to the prior fiscal year was primarily due to product mix changes to higher margin products which more than offset the reduction in revenues.

Apio Tech

The increase in gross profits for Apio Tech for the fiscal year ended May 28, 2006 compared to the same period last year was primarily due to the revenues received from our banana packaging agreement with Chiquita.

Landec Ag

The increase in gross profits for Landec Ag for the fiscal year ended May 28, 2006 compared to the same period last year was due to the increase in revenues as a result of the acquisition of Heartland Hybrids in August 2005, partially offset by higher royalty fees on corn seed hybrids with traits, such as genetics and certain chemicals, resulting in lower gross profits as a percentage of sales in fiscal year 2006 compared to the same period last year.

Corporate

The increase in gross profits for Corporate for the fiscal year ended May 28, 2006 compared to the same period last year was primarily due to (1) $1.56 million in revenues received from the license of our Intelimer technology in a specific field to a medical device company in December 2005, (2) $300,000 in licensing fees and research and development revenues from the license of our Intelimer technology in specific fields to Air Products in March 2006 and (3) the recognition of the remaining $550,000 of deferred revenue associated with the Alcon license agreement through the revised agreement termination date of May 28, 2006.

Operating Expenses:

	Fiscal Year Ended May 28, 2006	Fiscal Year Ended May 29, 2005	Change
	(In thousands)		
Research and Development:			
Apio	$ 1,108	$ 831	33%
Landec Ag	470	647	(27)%
Corporate	1,464	1,065	37%
Total R&D	$ 3,042	$ 2,543	20%
Selling, General and Administrative:			
Apio	$13,633	$12,354	10%
Landec Ag	9,616	7,857	22%
Corporate	4,730	3,201	48%
Total S,G&A	$27,979	$23,412	20%

Research and Development

Landec's research and development expenses consist primarily of expenses involved in the development and process scale-up initiatives. Research and development efforts at Apio are focused on the Company's proprietary BreatheWay membranes used for packaging produce, with recent focus on extending the shelf life of bananas and other shelf-life sensitive vegetables and fruit. At Landec Ag, the research and development efforts are focused on the Company's proprietary Intellicoat coatings for seeds, primarily corn seed. At Corporate, the research and development efforts are focused on uses for the proprietary Intelimer polymers outside of food and agriculture.

The increase in research and development expenses for the fiscal year ended May 28, 2006 compared to the same period last year was due to increased efforts expended at Apio Tech to expand its initiatives to programs beyond just bananas and increased expenses at Corporate to support new collaborations, including the addition of Landec's COO, Dr. David Taft, who was the COO of Apio in fiscal year 2005.

Selling, General and Administrative

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

The increase in selling, general and administrative expenses for the fiscal year ended May 28, 2006 compared to the same period last year was primarily due to (1) selling, general and administrative expenses of $2.0 million at Heartland Hybrids, (2) planned increases in selling and marketing expenses at Apio and Landec Ag to generate increases in revenues, (3) an increase in general and administrative expenses at Corporate for business development consulting fees and legal fees, (4) the accrual of bonuses for exceeding our fiscal year 2006 internal plan and (5) in fiscal year 2005 a $713,000 gain on the sale of land at Apio was netted against selling, general and administrative expenses.

Other:

	Fiscal Year Ended May 28, 2006	Fiscal Year Ended May 29, 2005	Change
	(In thousands)		
Interest Income	$ 633	$ 214	196%
Interest Expense	(452)	(414)	9%
Minority Interest Expense	(529)	(411)	29%
Other Expenses	(24)	(4)	500%
Total Other Expense	$(372)	$(615)	(40)%

Interest Income

The increase in interest income for the fiscal year ended May 28, 2006 compared to the same period last year was primarily due to the increase in cash available for investing and higher average interest rates on those investments.

Interest Expense

The increase in interest expense during the fiscal year ended May 28, 2006 compared to the same period last year was due to higher average interest rates on the Company's debt.

Minority Interest Expense

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

The increase in the minority interest expense in fiscal year 2006 compared to fiscal year 2005 was due to higher net income for Apio Cooling in fiscal year 2006 compared to fiscal year 2005.

Other Expenses

Other consists of non-operating income and expenses.

Fiscal Year Ended May 29, 2005 Compared to Fiscal Year Ended May 30, 2004

Revenues:

	Fiscal Year Ended May 29, 2005	Fiscal Year Ended May 30, 2004	Change
	(In thousands)		
Apio Value Added	$116,741	$101,067	16%
Apio Trading	58,660	59,311	(1)%
Apio Tech	52	1,715	(97)%
Apio Service	3,704	5,793	(36)%
Total Apio	179,157	167,886	7%
Landec Ag	25,648	23,641	8%
Corporate	425	565	(25)%
Total Revenues	$205,230	$192,092	7%

Financials

Apio Value Added

Apio's value-added revenues consist of revenues generated from the sale of specialty packaged fresh-cut and whole value-added processed vegetable products that are washed and packaged in our proprietary packaging and sold under Apio's Eat Smart brand, the Dole brand and various private labels.

The increase in Apio's value-added revenues for the fiscal year ended May 29, 2005 compared to the same period last year is due to increased product offerings, increased sales to existing customers and the addition of new customers. Specifically, sales of Apio's value-added 12-ounce specialty packaged retail product line grew 13% and sales of Apio's value-added vegetable tray products grew 60% during the fiscal year ended May 29, 2005 compared to the same period last year. Overall value-added sales volume increased 9% during the fiscal year ended May 29, 2005 compared to the same period last year.

Apio Trading

Apio trading revenues consist of revenues generated from the purchase and sale of primarily whole commodity fruit and vegetable products to Asia through Apio's export company, Cal-Ex and from the purchase and sale of whole commodity fruit and vegetable products domestically to Wal-Mart. The export portion of trading revenues for fiscal year 2005 was $48.8 million or 83% of total trading revenues.

The slight decrease in revenues in Apio's trading business for the fiscal year ended May 29, 2005 compared to the same period last year was primarily due to produce shortages during the winter months as a result of near record rains in the Western portion of the United States. Trading sales volumes were lower by 7% for the fiscal year ended May 29, 2005 compared to the same period last year. The decrease in volumes was virtually offset by higher average sales prices due to the scarcity of product during certain months of the year.

Apio Tech

Apio Tech consists of Apio's packaging technology business using its BreatheWay™ membrane technology. The first commercial application included in Apio Tech is our banana packaging technology. Current revenues generated from Apio Tech are from the sale of our proprietary packaging for bananas.

The decrease in revenues from the sale of bananas for the fiscal year ended May 29, 2005 compared to the same period last year was due to the Company only selling banana packaging not bananas themselves in fiscal year 2005. In addition, the sales of banana packaging occurred solely during the Company's fourth fiscal quarter of fiscal year 2005 and were for market trial purposes.

Apio Service

Prior to its sale on June 30, 2003 to Beachside Produce, Apio operated a domestic commodity vegetable business that marketed and sold whole produce for growers. Apio charged a per carton service fee for marketing and selling these whole commodity products. Subsequent to June 30, 2003, Apio's service revenues consist of revenues generated from Apio Cooling, LP.

The decrease in service revenues during the fiscal year ended May 29, 2005 compared to the same period last year is due to a 2% decrease in volumes in Apio's cooling operation due to lower commodity product volumes from Beachside Produce and one month of commodity revenues in fiscal year 2004 before the sale to Beachside Produce.

Landec Ag

Landec Ag revenues consist of revenues generated from the sale of hybrid seed corn to farmers under the Fielder's Choice Direct® brand and from the sale of Intellicoat coated corn and soybean seeds to farmers and seed companies. For the fiscal years ended May 29, 2005 and May 30, 2004, over 90% of Landec Ag's revenues were from the sale of uncoated hybrid seed corn under the Fielder's Choice brand.

The increase in revenues at Landec Ag during the fiscal year ended May 29, 2005 compared to the same period last year is due to a change in product mix to higher priced hybrid corn varieties that resulted in a 4% increase in the average price per unit. In addition, sales volumes increased 5% in fiscal year 2005 compared to fiscal year 2004.

Corporate

Corporate revenues consist of revenues generated from partnering with others under research and development agreements and supply agreements and from fees for licensing our proprietary Intelimer technology to others and from the corresponding royalties from these license agreements.

The decrease in Corporate revenues for the fiscal year ended May 28, 2005 compared to the same period of the prior year is primarily due to the completion of two R&D contracts (UCB and a medical device collaboration) in early fiscal year 2004 which resulted in R&D revenues decreasing $152,000 in fiscal year 2005 compared to fiscal year 2004.

Gross Profit:

	Fiscal Year Ended May 29, 2005	Fiscal Year Ended May 30, 2004	Change
	(In thousands)		
Apio Value Added	$18,257	$15,794	16%
Apio Trading	3,118	2,898	8%
Apio Tech	15	(862)	102%
Apio Service	805	2,401	(66)%
Total Apio	22,195	20,231	10%
Landec Ag	9,448	9,086	4%
Corporate	329	474	(31)%
Total Gross Profit	$31,972	$29,791	7%

General

There are numerous factors that can influence gross profits including product mix, customer mix, manufacturing costs, volume, sale discounts and charges for excess or obsolete inventory, to name a few. Many of these factors influence or are interrelated with other factors. Therefore, it is difficult to precisely quantify the impact of each item individually. The Company includes in cost of sales all the costs related to the sale of products in accordance with generally accepted accounting principles. These costs include the following: raw materials (including produce, seeds and packaging), direct labor, overhead (including indirect labor, depreciation, and facility related costs) and shipping and shipping related costs. The following discussion surrounding gross profits includes management's best estimates of the reasons for the changes for the fiscal year ended May 29, 2005 compared to the same period last year as outlined in the table above.

Apio Value-Added

The increase in gross profits for Apio's value-added specialty packaged vegetable business for the fiscal year ended May 29, 2005 compared to the same period last year was due to (1) a 16% increase in value-added sales during fiscal year 2005 and (2) improved manufacturing efficiencies through further automation of Apio's production process. These increases in gross profits were partially offset by produce shortages in March 2005 and the first half of April 2005 due to near record rains in the Western U.S. this past winter which reduced gross profits by approximately $1.1 million.

Apio Trading

Apio's trading business is a buy/sell business that realizes a commission-based margin in the 4-6% range. The increase in gross profits during the fiscal year ended May 29, 2005 compared to the same period last year was primarily due to a sales mix change to higher margin fruit and vegetable products which increased fiscal year 2005 gross margins to 5.8% compared to gross margins of 5.0% for the same period last year.

Apio Tech

The increase in gross profits for Apio Tech for the fiscal year ended May 29, 2005 compared to the same period last year was due to Apio only selling its proprietary banana packaging in fiscal year 2005 versus selling bananas in its banana packaging in fiscal year 2004 which resulted in significant gross profit losses.

Apio Service

The decrease in Apio's service business gross profits during the fiscal year ended May 29, 2005 compared to the same period last year was directly attributable to lower volume sales in Apio's cooling operation and the sale of the domestic commodity vegetable business to Beachside Produce in June 2003.

Landec Ag

The increase in gross profits for Landec Ag for the fiscal year ended May 29, 2005 compared to the same period last year was due to the increase in revenues, partially offset by higher royalty fees on corn seed hybrids with traits, such as genetics or certain chemicals, resulting in lower gross profits as a percentage of sales in fiscal year 2005 compared to the same period last year.

Corporate

The decrease in gross profits for Corporate for the fiscal year ended May 29, 2005 compared to the same period last year was primarily due to the completion of two R&D contracts (UCB and a medical device collaboration) in early fiscal year 2004 which resulted in R&D gross profits decreasing $152,000 in fiscal year 2005 compared to fiscal year 2004.

Operating Expenses:

	Fiscal Year Ended May 29, 2005	Fiscal Year Ended May 30, 2004	Change
	(In thousands)		
Research and Development:			
Apio	$ 831	$ 1,246	(33)%
Landec Ag	647	857	(25)%
Corporate	1,065	1,349	(21)%
Total R&D	$ 2,543	$ 3,452	(26)%
Selling, General and Administrative:			
Apio	$12,354	$12,498	(1)%
Landec Ag	7,857	7,017	12%
Corporate	3,201	2,769	16%
Total S,G&A	$23,412	$22,284	5%

Research and Development

Landec's research and development expenses consist primarily of expenses involved in the development and process scale-up initiatives. Research and development efforts at Apio are focused on the Company's proprietary BreatheWay membranes used for packaging produce, with recent focus on extending the shelf life of bananas and other shelf-life sensitive vegetables and fruit. At Landec Ag, the research and development efforts are focused on the Company's proprietary Intellicoat coatings for seeds, primarily corn seed. At Corporate, the research and development efforts are focused on uses for the proprietary Intelimer polymers outside of food and agriculture.

The decrease in research and development expenses for the fiscal year ended May 29, 2005 compared to the same period last year was primarily due to lower research and development expenses associated with (1) the Company's specialty packaging banana program as the focus of the program has shifted to market testing of the packaging technology with Apio's partner, Chiquita Brands International, (2) a greater shift of Landec Ag research and development personnel to production activities in fiscal year 2005 compared to fiscal year 2004 and (3) a reduction in staff at Corporate and lower facility related expenses in fiscal year 2005 compared to fiscal year 2004.

Selling, General and Administrative

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

The increase in selling, general and administrative expenses, excluding the $713,000 gain on the sale of land at Apio which is netted against selling, general and administrative expenses, for the fiscal year ended May 29, 2005 compared to the same period last year was primarily due to an increase in selling and marketing expenses at Apio and Landec Ag in order to increase revenues.

Other:

	Fiscal Year Ended May 29, 2005	Fiscal Year Ended May 30, 2004	Change
	(In thousands)		
Interest Income	$ 214	$ 164	30%
Interest Expense	(414)	(811)	(49)%
Minority Interest Expense	(411)	(537)	(23)%
Other (Expense)/Income	(4)	29	(114)%
Total Other Expense	$(615)	$(1,155)	(47)%

Interest Income

The increase in interest income for the fiscal year ended May 29, 2005 compared to the same period last year was primarily due to the increase in cash available for investing.

Interest Expense

The decrease in interest expense during the fiscal year ended May 29, 2005 compared to the same period last year was due to the Company using cash generated from operations to pay down debt and thus lowering interest expenses.

Minority Interest Expense

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

The decrease in the minority interest in fiscal year 2005 compared to fiscal year 2004 was due to lower profits generated from Apio Cooling in fiscal year 2005.

Other

Other consists of non-operating income and expenses.

Liquidity and Capital Resources

As of May 28, 2006, the Company had cash and cash equivalents of $20.5 million, a net increase of $7.6 million from $12.9 million at May 29, 2005.

Cash Flow from Operating Activities

Landec generated $10.9 million of cash flow from operating activities during fiscal year 2006 compared to $13.0 million during fiscal year 2005. The primary sources of cash during the fiscal year ended May 28, 2006 were from (1) net income and non-cash items, such as depreciation, of $11.0 million and (2) increased current liabilities of $4.5 million primarily due to increased royalty and technology fees in fiscal year 2006 at Landec Ag which are not due until fiscal year 2007. The primary uses of cash in operating activities were from (1) increased inventories, primarily seed corn at Landec Ag, of $3.1 million and (2) increased accounts receivable of $2.0 million primarily due to receivables at Heartland Hybrids which was acquired in August 2005.

Cash Flow from Investing Activities

Net cash used in investing activities for the year ended May 28, 2006 was $5.5 million compared to $5.2 million for the same period last year. The primary uses of cash from investing activities in fiscal year 2006 were for the purchase of the assets of Heartland Hybrids for $3.9 million and the purchase of $4.7 million of property and equipment primarily for the further automation of Apio's value-added facility. Net cash provided by investing activities was primarily from the net maturities of marketable securities of $2.0 million.

Cash Flow from Financing Activities

Net cash provided by financing activities for the fiscal year ended May 28, 2006 was $2.3 million compared to net cash used in financing activities of $1.4 million for the same period last year. The primary sources of cash was from the sale of $3.5 million of common stock to employees upon the exercise of stock options. The primary use of cash from financing activities during fiscal year 2006 was from the pay down of $1.1 million of long-term debt.

Capital Expenditures

During the fiscal year ended May 28, 2006, Landec purchased vegetable processing equipment and expanded its processing facility to support the growth of Apio's value added business. These expenditures represented the majority of the $4.7 million of equipment purchased.

Debt

On September 1, 2004, Apio entered into with Wells Fargo Bank N.A. ("Wells Fargo") a new $10 million revolving line of credit that expires on August 31, 2006, a 12-month, $4.8 million equipment line of credit, and a 36-month, $1.2 million term note for equipment purchased under the equipment line of credit with Wells Fargo Business Credit (collectively the "Loan Agreement").

On November 1, 2005, Apio amended its revolving line of credit with Wells Fargo Bank N.A. that was scheduled to expire on August 31, 2006. The line was reduced from $10.0 million to $7.0 million and outstanding amounts under the line of credit now bear interest at either the prime rate less .25% or the LIBOR adjustable rate plus 1.75% (6.84% at May 28, 2006). The Loan Agreement contains certain restrictive covenants, which require Apio to meet certain financial tests, including minimum levels of net income, maximum leverage ratio, minimum net worth and maximum capital expenditures. Landec has pledged substantially all of the assets of Apio to secure the lines with Wells Fargo. At May 28, 2006, no amounts were outstanding under the revolving line of credit or the equipment line of credit. Apio has been in compliance with all loan covenants in the Loan Agreement since the inception of this loan.

Landec Ag has a revolving line of credit which allows for borrowings of up to $7.5 million, based on Landec Ag's inventory levels. The interest rate on the revolving line of credit is the prime rate, (8.00% at May 28, 2006). The line of credit contains certain restrictive covenants, which, among other things, restrict the ability of Landec Ag to make payments on debt owed by Landec Ag to Landec. Landec Ag was in compliance with all of the loan covenants throughout fiscal year 2006. Landec has pledged substantially all of the assets of Landec Ag to secure the line of credit. At May 28, 2006, no amounts were outstanding under Landec Ag's revolving line of credit.

At May 29, 2005, Landec's total debt, including current maturities and capital lease obligations, was $2.0 million and the total debt to equity ratio was 2% as compared to 4% at May 29, 2005. This debt was comprised of term debt and capital lease obligations. The amount of debt outstanding on the Company's revolving lines of credit fluctuates over time. Borrowings on Landec's lines of credit are expected to vary with seasonal requirements of the Company's businesses.

Contractual Obligations

The Company's material contractual obligations for the next five years and thereafter as of May 28, 2006, are as follows (in thousands):

	Due in Fiscal Year Ended May						
Obligation	Total	2007	2008	2009	2010	2011	Thereafter
Long-term Debt	$1,968	$1,968	$ —	$ —	$ —	$ —	$ —
Capital Leases	50	50	—	—	—	—	—
Operating Leases	1,869	856	583	332	95	3	—
Licensing Obligation	600	100	100	100	100	100	100
Purchase Commitments	986	986	—	—	—	—	—
Total	$5,473	$3,960	$683	$432	$195	$103	$100

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

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

Landec believes that its cash from operations, 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.

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

The following table presents information about the Company's debt obligations and derivative financial instruments that are sensitive to changes in interest rates. The table presents principal amounts and related weighted average interest rates by fiscal year of expected maturity for the Company's debt obligations. The carrying value of the Company's debt obligations approximates the fair value of the debt obligations as of May 28, 2006.

Liabilities	2007	2008	2009	2010	2011	Thereafter	Total
				(In 000's)			
Lines of Credit	$ —	$—	$—	$—	$—	$—	$ —
Avg. Int. Rate							
Long term debt, including current portion							
Variable Rate	$2,018	$—	$—	$—	$—	$—	$2,018
Avg. Int. Rate	5.90%						5.90%

Financials

Item 8. ***Financial Statements and Supplementary Data***

See Item 15 of Part IV of this report.

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

Not applicable.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission, and to provide reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting during the quarter ended May 28, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal control over financial reporting as of May 28, 2006. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework. Our management has concluded that, as of May 28, 2006, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our independent registered public accounting firm, Ernst & Young LLP, have issued an audit report on our assessment of our internal control over financial reporting, which is included herein.

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Landec Corporation

We have audited management's assessment, included in the accompanying Management Report on Internal Controls over Financial Reporting, that Landec Corporation maintained effective internal control over financial reporting as of May 28, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Landec Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management's assessment that Landec Corporation maintained effective internal control over financial reporting as of May 28, 2006, is fairly stated, in all material respects, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Landec Corporation as of May 28, 2006 and May 29, 2005, and the related statements of income, shareholders' equity, and cash flows for the years ended May 28, 2006, May 29, 2005 and May 30, 2004 of Landec Corporation and our report dated July 14, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

San Jose, California
July 14, 2006

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

None

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

This information required by this item will be contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than September 25, 2006 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

Item 11. ***Executive Compensation***

This information required by this item will be contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than September 25, 2006 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

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

This information required by this item will be contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than September 25, 2006 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

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

This information required by this item will be contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than September 25, 2006 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

This information required by this item will be contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than September 25, 2006 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) 1. Consolidated Financial Statements of Landec Corporation

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

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

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Landec Corporation

We have audited the accompanying consolidated balance sheets of Landec Corporation and subsidiaries as of May 28, 2006 and May 29, 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the periods ended May 28, 2006, May 29, 2005 and May 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Landec Corporation and subsidiaries at May 28, 2006 and May 29, 2005, and the consolidated results of their operations and their cash flows for each of the three years in the periods ended May 28, 2006, May 29, 2005 and May 30, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Landec Corporation's internal control over financial reporting as of May 28, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 14, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
July 14, 2006

LANDEC CORPORATION

CONSOLIDATED BALANCE SHEETS

	May 28, 2006	May 29, 2005
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,519	$ 12,871
Marketable securities	—	1,968
Accounts receivable, less allowance for doubtful accounts of $245 and $313 at May 28, 2006 and May 29, 2005, respectively	17,637	15,405
Accounts receivable, related party	561	476
Inventory	13,958	9,917
Notes and advances receivable, net	376	419
Notes receivable, related party	14	89
Prepaid expenses and other current assets	1,637	2,042
Assets held for sale	—	1,190
Total current assets	54,702	44,377
Property and equipment, net	19,014	17,275
Goodwill, net	29,124	25,987
Trademarks, net	13,270	11,570
Other intangibles, net	860	58
Notes receivable	631	426
Notes receivable, related party	—	7
Other assets	1,424	375
Total Assets	$119,025	$100,075
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 23,435	$ 17,513
Related party payables	533	793
Accrued compensation	3,303	1,907
Other accrued liabilities	2,032	2,141
Deferred revenue	884	557
Current maturities of long term debt	2,018	548
Total current liabilities	32,205	23,459
Long term debt, less current maturities	—	2,540
Other liabilities	—	550
Minority interest	1,771	1,466
Total liabilities	33,976	28,015
Shareholders' equity:		
Common stock, $0.001 par value; 50,000,000 shares authorized; 24,917,298 and 24,086,368 shares issued and outstanding at May 28, 2006 and May 29, 2005, respectively	126,288	121,950
Accumulated deficit	(41,239)	(49,890)
Total shareholders' equity	85,049	72,060
Total Liabilities and Shareholders' Equity	$119,025	$100,075

See accompanying notes.

LANDEC CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended May 28, 2006	Year Ended May 29, 2005	Year Ended May 30, 2004
	(In thousands, except per share amounts)		
Statement of Income Data:			
Revenues:			
Product sales	$225,404	$201,020	$185,664
Services revenue	—	—	2,083
Services revenue, related party	3,725	3,704	3,708
License fees	2,398	88	88
Research, development and royalty revenues	162	185	292
Royalty revenues, related party	264	233	257
Total revenues	231,953	205,230	192,092
Cost of revenue:			
Cost of product sales	184,345	164,027	153,354
Cost of product sales, related party	4,559	6,332	5,557
Cost of services revenue	3,005	2,899	3,390
Total cost of revenue	191,909	173,258	162,301
Gross profit	40,044	31,972	29,791
Operating costs and expenses:			
Research and development	3,042	2,543	3,452
Selling, general and administrative	27,979	23,412	22,284
Total operating costs and expenses	31,021	25,955	25,736
Operating income	9,023	6,017	4,055
Interest income	633	214	164
Interest expense	(452)	(414)	(811)
Minority interest expense	(529)	(411)	(537)
Other (expense)/income, net	(24)	(4)	29
Net income	$ 8,651	$ 5,402	$ 2,900
Dividends on Series B preferred stock	—	—	(464)
Net income applicable to common shareholders	$ 8,651	$ 5,402	$ 2,436
Basic net income per share	$ 0.35	$ 0.23	$ 0.11
Diluted net income per share	$ 0.32	$ 0.21	$ 0.12
Shares used in per share computation:			
Basic	24,553	23,705	21,396
Diluted	25,657	24,614	23,556

See accompanying notes.

LANDEC CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock		Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount		
	(In thousands, except share and per share amounts)					
Balance at May 25, 2003	160,881	$ 5,531	21,107,517	$110,100	$(57,728)	$57,903
Dividends on Series B preferred stock	13,529	464	—	—	(464)	—
Issuance of common stock at $0.58 to $5.75 per share	—	—	330,401	746	—	746
Conversion of Series B preferred stock to common stock	(174,410)	(5,995)	1,744,102	5,995	—	—
Net income	—	—	—	—	2,900	2,900
Balance at May 30, 2004	—	—	23,182,020	116,841	(55,292)	61,549
Issuance of common stock at $0.86 to $7.20 per share	—	—	904,348	5,109	—	5,109
Net income	—	—	—	—	5,402	5,402
Balance at May 29, 2005	—	—	24,086,368	121,950	(49,890)	72,060
Issuance of common stock at $0.86 to $6.75 per share	—	—	678,744	3,378	—	3,378
Issuance of common stock for the net assets of Heartland Hybrids	—	—	152,186	960	—	960
Net income	—	—	—	—	8,651	8,651
Balance at May 28, 2006	—	$ —	24,917,298	$126,288	$(41,239)	$85,049

See accompanying notes

Financials

LANDEC CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended May 28, 2006	Year Ended May 29, 2005	Year Ended May 30, 2004
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 8,651	$ 5,402	$ 2,900
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,203	3,467	3,705
Write down of goodwill	—	—	129
Net (gain) loss on disposal of property and equipment	(120)	149	(57)
Minority interest	529	414	537
Investment in unconsolidated subsidiary	(1,311)	—	—
Changes in assets and liabilities, net of effects from acquisitions and discontinued operations:			
Accounts receivable, net	(1,968)	(532)	1,964
Inventory	(3,123)	1,310	250
Issuance of notes and advances receivable	(1,761)	(448)	(1,041)
Collection of notes and advances receivable	1,882	1,250	2,707
Prepaid expenses and other current assets	431	(515)	58
Accounts payable	3,685	2,553	1,020
Grower payables	—	—	(3,234)
Related party payables	(260)	363	(202)
Accrued compensation	1,396	337	347
Other accrued liabilities	(146)	(365)	(1,425)
Deferred revenue	(223)	(337)	(147)
Net cash provided by operating activities	10,865	13,048	7,511
Cash flows from investing activities:			
Purchases of property and equipment	(4,746)	(3,658)	(3,393)
Acquisition of businesses, net of cash acquired	(3,860)	—	—
Decrease (increase) in restricted cash	—	—	2,382
Issuance of notes and advances receivable	(425)	—	(20)
Collection of notes and advances receivable	224	408	363
Proceeds from the sale of property and equipment	1,350	22	3
Purchase of marketable securities	(991)	(1,968)	—
Proceeds from maturities of marketable securities	2,959	—	—
Net cash used in investing activities	(5,489)	(5,196)	(665)
Cash flows from financing activities:			
Proceeds from sale of common stock	3,378	5,109	746
Proceeds from the exercise of subsidiary options	105	50	103
Net change in other assets	254	(140)	(284)
Borrowings on lines of credit	14,904	59,441	136,521
Payments on lines of credit	(14,904)	(64,758)	(138,448)
Payments on long term debt	(1,136)	(1,791)	(2,658)
Proceeds from issuance of long term debt	—	1,200	87
Payments to minority interest	(329)	(550)	(154)
Net cash provided by (used in) financing activities	2,272	(1,439)	(4,087)
Net increase in cash and cash equivalents	7,648	6,413	2,759
Cash and cash equivalents at beginning of year	12,871	6,458	3,699
Cash and cash equivalents at end of year	20,519	$ 12,871	$ 6,458
Supplemental disclosure of cash flows information:			
Cash paid during the period for interest	$ 312	$ 511	$ 843
Cash paid during the period for income taxes	$ —	$ 50	$ —
Supplemental schedule of noncash investing and financing activities:			
Sale of land and equipment for note receivable	$ 380	$ —	$ 171
Issuance of Series B preferred stock as dividends to Series B preferred stockholders	$ —	$ —	$ 464
Conversion of Series B preferred stock to common stock	$ —	$ —	$ 5,995

See accompanying notes.

LANDEC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Organization

Landec Corporation and its subsidiaries ("Landec" or the "Company") design, develop, manufacture, and sell temperature-activated and other specialty polymer products for a variety of food products, agricultural products, and licensed partner applications. In addition, the Company markets and distributes hybrid corn seed to farmers in the United States through its Landec Ag, Inc. ("Landec Ag") subsidiary and specialty packaged fresh-cut and whole produce to retailers and foodservice companies primarily, in the United States and Canada through its Apio, Inc. ("Apio") subsidiary.

Basis of Presentation

Basis of Consolidation

The consolidated financial statements comprise the accounts of Landec Corporation and its subsidiaries, Apio and Landec Ag. All material inter-company transactions and balances have been eliminated.

Reclassifications

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

Summary of Significant Accounting Policies

Use of Estimates

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

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

Concentrations of Risk

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

Several of the raw materials used to manufacture the Company's products are currently purchased from a single source, including some monomers used to synthesize Intelimer® polymers and substrate materials for the production of Intelimer packaging used on a multitude of Apio value-added products. In addition, a majority of the hybrid corn varieties sold by Landec Ag are sourced from a single seed producer.

During the fiscal year ended May 28, 2006, sales to the Company's top five customers accounted for approximately 46% of total revenue, with the top customers, Costco Wholesale Corporation and Sam's Club from the Food Products Technology segment, accounted for approximately 16% and 14%, respectively, of total revenues. In addition, approximately 22% of the Company's total revenues were derived from product sales to international customers, none of whom individually accounted for more than 6% of total revenues. As of May 28, 2006, Costco Wholesale Corporation and Sam's Club represented approximately 20% and 14%, respectively, of total accounts receivable.

During the fiscal year ended May 29, 2005, sales to the Company's top five customers accounted for approximately 42% of total revenue, with the top customers, Costco Wholesale Corporation from the Food Products Technology segment, accounted for approximately 15% of total revenues. In addition, approximately 24% of the Company's total revenues were derived from product sales to international customers, none of whom individually accounted for more than 6% of total revenues. As of May 29, 2005, Costco Wholesale Corporation represented approximately 18% of total accounts receivable.

Impairment Of Long-Lived Assets

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

The Company regularly evaluates its long-lived assets for indicators of possible impairment. To date, no impairment has been recorded.

Financial Instruments

The Company's financial instruments are primarily composed of marketable debt securities, commercial-term trade payables and grower advances, notes receivable and lines of credit, as well as long-term notes receivables and debt instruments. For short-term instruments, the historical carrying amount is a reasonable estimate of fair value. Fair values for long-term financial instruments not readily marketable are estimated based upon discounted future cash flows at prevailing market interest rates. Based on these assumptions, management believes the fair market values of the Company's financial instruments are not materially different from their recorded amounts as of May 28, 2006.

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 and sales discounts. The allowance for doubtful accounts is based on review of the overall condition of accounts receivable balances and review of significant past due accounts. The changes in the Company's allowances for doubtful accounts are summarized in the following table.

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Year ended May 30, 2004				
Allowance for doubtful accounts receivable and notes receivable	$607	$276	$(423)	$460
Year ended May 29, 2005				
Allowance for doubtful accounts receivable and notes receivable	$460	$ 80	$(182)	$358
Year ended May 28, 2006				
Allowance for doubtful accounts receivable and notes receivable	$358	$ 47	$(135)	$270

Revenue Recognition

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

Licensing revenue is recognized in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition (a replacement of SAB 101)*, (SAB 104). Initial license fees are deferred and amortized over the period of the agreement to revenue when a contract exists, the fee is fixed and determinable, and collectibility is reasonably assured. Noncancellable, nonrefundable license fees are recognized 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.

Prior to November 1, 1999, the Company 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. Effective 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 SAB 104. In the fiscal year ended October 29, 2000, the Company recorded a charge of $1.9 million related to the cumulative effect of the change in accounting principle. The cumulative effect was initially recorded as deferred revenue and is being recognized as revenue over the research and development period or supply period commitment of the agreement. During the year ended October 29, 2000, the impact of the change in accounting was to increase the net loss by approximately $1.5 million which was comprised of the $1.9 million cumulative effect of the change as described above, net of $374,000 of the related deferred revenue which was recognized as "recycled" revenue during 2000. "Recycled" revenue refers to revenue that had previously been recognized as licensing revenue in the Company's financial statements, but as a result of the Company's adoption of SAB 104, was reversed through a cumulative effect of a change in accounting in fiscal year 2000 and is now being recognized as revenue over the research and development period and/or the supply period commitment of the agreement, whichever is longer.

In July 2005, the Company amended its supply agreement with Alcon, Inc. to change the expiration date of the agreement from November 1, 2012 to May 28, 2006. In accordance with SAB 104, the entire amount of the deferred revenue of $638,000 as of May 29, 2005, was recognized as "recycled" revenue during fiscal year 2006.

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.

Other Accounting Policies and Disclosures

Cash, Cash Equivalents and Marketable Securities

The Company records all highly liquid securities with three months or less from date of purchase to maturity as cash equivalents. Short-term marketable securities consist of high quality corporate debt securities with original maturities of more than three months at the date of purchase and less than one year from the date of the balance sheet. The Company classifies all debt securities with readily determined market values as "available for sale" in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* These investments are classified as marketable securities on the consolidated balance sheet as of May 29, 2005 (none at May 28, 2006) and are carried at fair market value. Unrealized gains and losses are reported as a component of shareholders' equity and were immaterial in fiscal year 2005. The cost of debt securities is adjusted for amortization of premiums and discounts to maturity. This amortization is recorded to interest income. Realized gains and losses on the sale of available-for-sale securities are also recorded to interest income and were immaterial in fiscal year 2005. The cost of securities sold is based on the specific identification method.

Inventories

Inventories are stated at the lower of cost (using the first-in, first-out method) or market. As of May 28, 2006 and May 29, 2005 inventories consisted of (in thousands):

	May 28, 2006	May 29, 2005
Finished goods	$10,017	$6,132
Raw materials	3,764	3,655
Work in process	177	130
Inventory	$13,958	$9,917

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 considered to be useable.

Advertising Expense

The Company defers certain costs related to direct-response advertising of Landec Ag's hybrid corn seeds. Such costs are amortized over periods (less than one year) that correspond to the estimated revenue stream of the advertising activity. Advertising expenditures for Landec Ag and Apio that are not direct-response advertisements are expensed as incurred. The advertising expense for the Company for fiscal years 2006, 2005 and 2004 was $1.6 million, $2.2 million and $2.1 million, respectively. The amount of deferred advertising included in prepaid expenses and other current assets at May 28, 2006 and May 29, 2005 was $61,000 and $192,000, respectively.

Notes and Advances Receivable

Apio has made advances to fruit growers for the development of orchards, to produce growers for crop and harvesting costs and to the buyer of the fruit processing facility. Notes and advances receivable related to operating activities are for the sourcing of crops for Apio's business and notes and advances receivable related to investing activities are for financing transactions with third parties. Typically, except for development advances, these advances are paid off within the growing season (less than one year) from harvested crops. Development advances and advances not fully paid during the current growing season are converted to interest bearing obligations, evidenced by contracts and notes receivable. These notes and advances receivable are secured by perfected liens on land and/or crops and have terms that range from twelve to sixty 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 or the fair value of the security for the note or advance.

Related Party Transactions

Apio provides packing, cooling and distributing services for farms in which the Chief Executive Officer of Apio (the "Apio CEO") has a financial interest and purchases produce from those farms. Apio also purchases produce from Beachside Produce, LLC (formerly known as Apio Fresh), a related party, for sale to third parties and provides cooling and distribution services to Beachside Produce. Revenues, cost of product sales and the resulting receivables and payables are classified as related party in the accompanying financial statements as of May 28, 2006 and May 29, 2005 and for the fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004.

Apio leases, for approximately $429,000 on an annual basis, agricultural land that is either owned, controlled or leased by the Apio CEO. Apio, in turn, subleases that land at cost to growers who are obligated to deliver product from that land to Apio for value added products. There is generally no net statement of operations impact to Apio as a result of these leasing activities but Apio creates a guaranteed source of supply for the value added business. Apio has loss exposure on the leasing activity to the extent that it is unable to sublease the land. For fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004, the Company subleased all of the land leased from the Apio CEO and received sublease income of $554,000, $1.0 million and $1.3 million, respectively, which is substantially equal to the amount the Company paid to lease that land for such periods.

Apio's domestic commodity vegetable business was sold to Beachside Produce, effective June 30, 2003. The Apio CEO is a 12.5% owner in Beachside Produce. During fiscal years 2006, 2005 and 2004, the Company recognized revenues of $103,000, $238,000 and $890,000, respectively, from the sale of products to Beachside Produce and royalty revenues of $264,000, $233,000 and $257,000, respectively, from the use by Beachside Produce of Apio's trademarks. The related accounts receivable is classified as related party in the accompanying Consolidated Balance Sheets as of May 28, 2006 and May 29, 2005.

In addition, the Apio CEO has a 6% ownership interest in Apio Cooling LP, a limited partnership in which Apio is the general partner with a 60% ownership interest. Included in minority interest as of May 28, 2006 and May 29, 2005 is $237,000 and $201,000, respectively, related to the Apio CEO's ownership interest.

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

Property and Equipment

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

The Company capitalizes software development costs for internal use in accordance with Statement of Position 98-1, *"Accounting for Costs of Computer Software Developed or Obtained for Internal Use"* ("SOP 98-1"). Capitalization of software development costs begins in the application development stage and ends when the asset is placed into service. The Company amortizes such costs using the straight-line basis over estimated useful lives. The Company capitalized $226,000 and $209,000 of software development costs during the fiscal years ended May 28, 2006 and May 29, 2005, respectively.

Intangible Assets

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* (SFAS 142), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company is required under SFAS 142 to review goodwill and indefinite lived intangible assets at least annually. During fiscal year 2006, the Company completed its annual impairment review. The review is performed by grouping the net book value of all long-lived assets for reporting entities, including goodwill and other intangible assets, and comparing this value to the related estimated fair value. The determination of fair value is based on estimated future discounted cash flows related to these long-lived assets. The discount rate used was based on the risks associated with the reporting entities. The determination of fair value was performed by management using the services of an independent appraiser. The review concluded that the fair value of the reporting entities exceeded the carrying value of their net assets and thus no impairment charge was warranted as of May 28, 2006.

Equity Investment in Non-public Company

The Company's equity investment in a non-public company is carried at cost, as adjusted for impairment losses, if any. Since there is no readily available market value information, the Company periodically reviews this investment to determine if any other than temporary declines in value have occurred and then the carrying value of the investment is adjusted as necessary.

Deferred Revenue

Cash received in advance of services performed (principally revenues related to upfront license fees) or shipment of products (primarily hybrid corn seed) are recognized as a liability and recorded as deferred revenue. At May 28, 2006, approximately $73,000 has been recognized as a liability for advances on future hybrid corn seed shipments, $600,000 as a liability for deferred license fee revenues and $211,000 for advances on ground lease payments from growers.

At May 29, 2005, approximately $97,000 has been recognized as a liability for advances on future hybrid corn seed shipments, $638,000 as a liability for deferred license fee revenues and $372,000 for advances on ground lease payments from growers.

Minority Interest

In connection with the acquisition of Apio, Landec acquired Apio's 60% general partner interest in Apio Cooling, a California limited partnership. Apio Cooling is included in the consolidated financial statements of Landec for all periods presented. The minority interest balance of $1.8 million at May 28, 2006 is comprised of $1.5 million of limited partners' interest in Apio Cooling LP and $296,000 of third party ownership in Apio and Landec Ag. The minority interest balance of $1.5 million at May 29, 2005 is comprised of $1.3 million of limited partners' interest in Apio Cooling LP and $141,000 of third party ownership in Apio and Landec Ag.

Per Share Information

Financial Accounting Standards Board issued Statement No. 128, *"Earnings Per Share"* (SFAS 128) requires the presentation of basic and diluted earnings per share. Basic earnings per share excludes any dilutive effects of options, warrants and convertible securities and is computed using the weighted average number of common share outstanding. Diluted earnings per share reflects the potential dilution if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted common equivalent shares consist of convertible preferred stock and stock options using the treasury stock method.

The following table sets forth the computation of diluted net income per share (in thousands, except per share amounts):

	Fiscal Year Ended May 28, 2006	Fiscal Year Ended May 29, 2005	Fiscal Year Ended May 30, 2004
Numerator:			
Net income	$ 8,651	$ 5,402	$ 2,900
Less: Minority interest in income of subsidiary	(556)	(294)	(116)
Net income for diluted net income per share	$ 8,095	$ 5,108	$ 2,784
Denominator:			
Weighted average shares for basic net income per share	24,553	23,705	21,396
Effect of dilutive securities:			
Stock options	1,104	909	602
Convertible preferred stock	—	—	1,558
Total dilutive common shares	1,104	909	2,160
Weighted average shares for diluted net income per share	25,657	24,614	23,556
Diluted net income per share	$ 0.32	$ 0.21	$ 0.12

Options to purchase 276,313, 622,452 and 1,370,178 shares of Common Stock at a weighted average exercise price of $6.70, $6.78 and $6.31 per share were outstanding during fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004, respectively, but were not included in the computation of diluted net income per share because the options' exercise price were greater than the average market price of the Common Stock and, therefore, the effect would be antidilutive.

Cost of Sales

The Company includes in cost of sales all the costs related to the sale of products in accordance with generally accepted accounting principles. These costs include the following: raw materials (including produce, seeds and packaging), direct labor, overhead (including indirect labor, depreciation, and facility related costs) and shipping and shipping related costs.

Research and Development Expenses

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

Accounting for Stock-Based Compensation

The Company accounts for its stock option plans and its employee stock purchase plans in accordance with the provisions of the Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees.*

The Company has elected to follow APB 25 in accounting for its employee stock options.

Under APB 25, no compensation expense is recognized in the Company's financial statements unless the exercise price of the Company's employee stock options is less than the market price of the underlying stock on the date of grant.

Pro forma information regarding net income and net income per share has been determined as if the Company had accounted for the Landec stock option plans under the fair value method and the Landec Ag stock plan and Apio stock plans under the minimum value method prescribed by Statement of Financial Accounting Standard No. 123 (SFAS No. 123). The fair value of options granted in fiscal years 2006, 2005 and 2004 reported below has been estimated at the date of grant using a Black-Scholes options pricing model with the following weighted average assumptions:

	Landec Employee Stock Options		
	Fiscal Year Ended May 28, 2006	Fiscal Year Ended May 29, 2005	Fiscal Year Ended May 30, 2004
Expected life (in years)	4.58	4.38	6.02
Risk-free interest rate	4.37%	3.70%	3.09%
Volatility	0.52	0.57	0.57
Dividend yield	0%	0%	0%

The assumptions used for the Landec stock options for the expected life, the risk-free interest rate and the dividend yield are the same assumptions used to determine the fair value of the Landec Ag and Apio options granted in the fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004. The fair value for Landec Ag and Apio options was estimated using the minimum value method since the stock of these subsidiaries is not publicly traded.

The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected stock price volatility. The change in the volatility in the fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004 is a result of basing the volatility on Landec's stock price.

The weighted average estimated fair value of Landec employee stock options granted at grant date market prices during the fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004 was \$3.36, \$3.54 and \$2.89 per share, respectively. No stock options were granted above or below grant date market prices during the fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004. The weighted average estimated fair value of shares granted under the Landec Employee Stock Purchase Plan during the fiscal years ended

May 28, 2006, May 29, 2005 and May 30, 2004 was $2.19, $1.98 and $0.88 per share, respectively. The weighted average estimated fair value of options granted under the Landec Ag Stock Plan during the fiscal year ended May 30, 2004 was $0.23 per share. No options were granted under the Landec Ag Stock Plan in fiscal years 2006 and 2005. There were no grants under the Apio Stock Plan during fiscal years 2006, 2005 and 2004.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands, except per share amounts):

	Year Ended May 28, 2006	Year Ended May 29, 2005	Year Ended May 30, 2004
Net income — as reported	$ 8,651	$ 5,402	$2,900
Deduct:			
Stock-based employee expense determined under SFAS 123	(1,160)	(1,511)	(961)
Pro forma net income	$ 7,491	$ 3,891	$1,939
Basic net income per share — as reported	$ 0.35	$ 0.23	$ 0.11
Diluted net income per share — as reported	$ 0.32	$ 0.21	$ 0.12
Basic pro forma net income per share	$ 0.31	$ 0.16	$ 0.07
Diluted pro forma net income per share	$ 0.27	$ 0.15	$ 0.08

The effects on pro forma disclosures of applying SFAS No. 123 are not likely to be representative of the effects on pro forma disclosures of future years due to the impact of granting options in future periods.

Recent Accounting Pronouncements

Accounting for Stock-Based Compensation

In December 2004, the FASB issued Statement No. 123 (revised 2004), *Share-Based Payment*, or SFAS No. 123R, which is a revision of SFAS No. 123, and supersedes APB Opinion 25. SFAS 123R requires all share-based payments to employees and directors, including grants of stock options, to be recognized in the statement of operations based on their fair values. On April 14, 2005, the SEC adopted a new rule that amended the compliance dates for SFAS 123R such that the Company is now allowed to adopt the new standard effective at the beginning of fiscal year 2007. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB Opinion 25's intrinsic value method and, as such, recognizes no compensation cost for employee stock options.

Under SFAS 123R, the Company must determine the appropriate fair value model and related assumptions to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods include modified prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive method would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company has decided to adopt the modified prospective method. The Company is currently evaluating the requirements of

SFAS 123R as well as option valuation methodologies related to its stock option plans. The Company's preliminary estimate indicates that the effect of adopting SFAS 123R could result in a pre tax charge to net income of up to approximately $500,000 in fiscal year 2007. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation costs to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption.

2. Purchase of Heartland Hybrids Assets

On August 29, 2005, Landec Corporation, through its agricultural seed subsidiary, Landec Ag, Inc., acquired the assets of Heartland Hybrids, Inc. ("Heartland"), which is based in Dassel, MN, for $6.0 million. The consideration at closing consisted of 152,186 shares of Landec Common Stock valued at $960,000 and cash of $3.69 million. In addition, the Company incurred $130,000 in acquisition related expenses. The agreement also provides for future payments to the former owners of Heartland of up to $1.35 million. These payments consist of a cash earn-out of $1.2 million based on Heartland achieving certain financial targets for fiscal years 2006 and 2007 and a $150,000 hold back for any post closing adjustments, $100,000 of which was earned and paid in May 2006. In July 2006 the Company determined that approximately $400,000 of the earn out was earned for fiscal year 2006 and will be subsequently paid and recorded as additional goodwill in the first quarter of fiscal year 2007. Heartland operations are included in Landec's consolidated results of operations commencing August 29, 2005. The purchase price has been allocated to the acquired assets and liabilities based on their relative fair market values, subject to final adjustments predominantly related to earn-out payments. These allocations are based on independent valuations and other studies.

The following is a summary of the purchase price allocation (in thousands):

Net assets and liabilities	$ (757)
Customer Base	800
Trademark	1,700
Goodwill	3,137
	$4,880

Under Statements of Financial Accounting Standards No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with the Statements. All of the goodwill generated from the acquisition of Heartland's assets is expected to be deductible for tax purposes. No pro forma information is deemed necessary as the operations of Heartland are immaterial to Landec's annual revenues and results of operations.

3. License Agreements

On December 23, 2005, Landec entered into an exclusive licensing agreement with a medical device company. This company paid Landec an upfront license fee of $250,000 for the exclusive rights to use Landec's Intelimer® materials technology in a specific device field worldwide. Landec will also receive royalties on the sale of products incorporating Landec's technology. In addition, the Company received shares of preferred stock valued at $1.31 million which represents a 19.9% ownership interest in the medical device company. The $1.31 million is included in other assets in the accompanying Consolidated Balance Sheet. The $1.56 million of value received under this agreement is recorded as licensing revenue in the accompanying Consolidated Statements of Operations since Landec has no further obligations under this agreement.

On March 14, 2006, Landec entered into an exclusive license and research and development agreement with Air Products and Chemicals, Inc. Landec received an upfront licensing fee of $800,000 at close and will receive up to an additional $1.6 million of license payments that will be paid in quarterly installments of $200,000 each during years two and three of the agreement for the exclusive rights to use Landec's Intelimer materials technology in specific fields worldwide. In addition, Landec received at close $100,000 for technology transfer work that was performed by Landec prior to May 28, 2006. Landec will provide research and development support to Air Products for three years with a mutual option for two additional years. The license fees will be recognized as license revenue over a three year period beginning March 2006. In addition, in accordance with the agreement, Landec will receive 40% of the gross profits generated from the sale of products by Air Products occurring after March 14, 2007, that incorporate Landec's Intelimer materials. The Company recognized $300,000 in license revenues under this agreement during the fourth quarter of fiscal year 2006.

4. Licensing and Supply Agreement

In July 2005, the Company amended the supply agreement with Alcon, Inc. to change the expiration date of the agreement from November 1, 2012 to May 28, 2006. As a result, all of the deferred revenue has been reclassified to current liabilities in the accompanying Consolidated Balance Sheets. In addition, in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition (a replacement of SAB 101)*, the entire amount of the deferred revenue of $638,000 as of May 29, 2005, has been recognized as "recycled" revenue during fiscal year 2006.

5. Purchase and Sale of Fruit Land

On January 14, 2005, the Company entered into an agreement to purchase approximately 155 acres of fruit land from an individual for $812,500. This amount was paid to the seller through the funding of an escrow account on March 23, 2005. In a separate unrelated transaction, on January 31, 2005, the Company entered into an agreement to sell approximately 45 acres of grape land to an individual for $452,500. Upon entering into the agreement, the Company received $28,000 in cash and promissory notes receivable for $424,500. The sale closed on January 3, 2006. As of February 26, 2006, payments on the notes receivable totaled $56,000 with the remaining balance to be paid from net profits from the sale of grapes produced from this property with a final payment due on December 31, 2009, if not previously paid off. Interest accrues at the prime rate and is payable quarterly. In another transaction which closed on January 17, 2006, the Company sold to an individual the remaining 110 acres for $936,000 in cash, net of sales commissions. The Company recorded a gain of $160,000 during fiscal year 2006 on these sales.

6. Notes and Advances Receivable

	May 28, 2006	May 29, 2005
Notes and advances receivable at May 28, 2006 and May 29, 2005 consisted of the following (in thousands):		
Note receivable due from buyer of fruit processing equipment in annual installments of $98,143 plus interest at prime rate plus 1.0%, with final payment due October 20, 2009, secured by purchased assets(2)	$ 413	$ 507
Note receivable due from grower in annual installments in an amount equal to 50% of net profits realized by borrower from the sale of grapes produced from this property, plus interest at prime (8.00% at May 28, 2006), with final payment due December 31, 2009, secured by a deed of trust(2)	380	—
Advances to a grower under an agricultural sublease in semi-annual installments of $214,500 through October 31, 2006, to be repaid at $12,000 per week by withholding proceeds from crop produced on this property(1)	156	—
Note receivable from grower, with principal and interest at the prime rate plus 3%, payments to be withheld from proceeds derived from crop sales, due through October 31, 2005, secured by crops(1)	—	216
Note receivable due from grower in annual installments of $33,437 plus interest at prime rate plus 1.0%, with final payment due December 31, 2007, unsecured(1)	67	117
Note receivable due from Beachside Produce (related party) in monthly installments of $7,043 including interest at 5%, with final payment due June 30, 2006, secured by lien and security interest(2)	14	89
Notes receivable due from growers, with principal and interest of prime rate plus 1.75%, secured by their respective partnership interest in Apio Cooling LP. Payments to be deducted from distributions until notes are paid in full, with balances due December 31, 2008(1)	4	34
Note receivable due from buyer of fruit trademarks in annual installments of $2,857 plus interest at prime rate plus 1.0%, with final payment due October 20, 2009(2)	12	15
Note receivable due from Beachside Produce (related party) in monthly installments of $7,512 including interest at 5%, with final payment due June 30, 2005, secured by lien and security interest(2)	—	8
Gross notes and advances receivable	1,046	986
Less allowance for doubtful notes	(25)	(45)
Net notes and advances receivable	1,021	941
Less current portion of notes and advances receivable	(390)	(508)
Non-current portion of notes and advances receivable	$ 631	$ 433

(1) Represents notes and advances receivable associated with operating activities.

(2) Represents notes and advances receivable associated with investing activities.

Interest income from interest bearing notes receivable for the fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004 was $89,000, $62,000 and $137,000, respectively.

7. Property and Equipment

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

	Years of Useful Life	May 28, 2006	May 29, 2005
Land and building	15-30	$ 11,757	$ 11,051
Leasehold improvements	3-20	1,044	1,177
Computer, capitalized software, machinery, equipment and auto	3-7	22,581	20,403
Furniture and fixtures	5-7	448	428
Construction in process		2,171	142
Gross property and equipment		38,001	33,201
Less accumulated depreciation and amortization		(18,987)	(15,926)
Net property and equipment		$ 19,014	$ 17,275

Depreciation expense for the fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004 was $3.2 million, $3.4 million and $3.4 million, respectively. Equipment under capital leases, which is the security for the related lease obligation, at May 28, 2006 and May 29, 2005 was $103,000 and $103,000, respectively. The related accumulated amortization for equipment under capital leases is $58,000 and $37,000, respectively. Amortization related to capitalized software was $661,000, $742,000 and $989,000, respectively, for fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004. The unamortized computer software costs at May 28, 2006 and May 29, 2005 were $2.1 million and $1.8 million, respectively.

8. Intangible Assets

Changes in the carrying amount of goodwill for the fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004 by reportable segment, are as follows (in thousands):

	Food Products Technology	Agricultural Seed Technology	Total
Balance as of May 25, 2003	$21,362	$4,754	$26,116
Goodwill disposed during the period	(129)	—	(129)
Balance as of May 30, 2004	21,233	4,754	25,987
Goodwill changes during the period	—	—	—
Balance as of May 29, 2005	21,233	4,754	25,987
Goodwill acquired during the period	—	3,137	3,137
Balance as of May 28, 2006	$21,233	$7,891	$29,124

Information regarding Landec's other intangible assets is as follows (in thousands):

	May 28, 2006			May 29, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Unamortized Intangible Assets						
Trademark	$15,000	$(1,730)	$13,270	$13,300	$(1,730)	$11,570
Amortized Intangible Assets						
Other	1,244	(384)	860	434	(376)	58
	$16,244	$(2,114)	$14,130	$13,734	$(2,106)	$11,628

Amortization expense, including amortization of other assets, for fiscal years 2006, 2005 and 2004 was $0, $103,000 and $218,000 for Food Products Technology and $8,000, $1,000 and $41,000 for Agricultural Seed Technology, respectively. Amortization expense, including amortization of other assets, for fiscal years ended May 29, 2006, May 29, 2005 and May 30, 2004 was $8,000, $104,000 and $259,000, respectively.

9. Shareholders' Equity

Holders of Common Stock are entitled to one vote per share.

Convertible Preferred Stock

The Company has authorized two million shares of preferred stock, and as of May 28, 2006 has no outstanding preferred stock.

Common Stock, Stock Purchase Plans and Stock Option Plans

At May 28, 2006, the Company had 4,099,531 common shares reserved for future issuance under Landec stock option plans (3,976,054) and the employee stock purchase plan (123,477).

On October 14, 2005, following shareholder approval at the Annual Meeting of Shareholders of the Company, the 2005 Stock Incentive Plan (the "Plan") became effective. The Plan replaced the Company's four then existing equity plans and no shares remain available for grant under these existing plans. Employees (including officers), consultants and directors of the Company and its subsidiaries and affiliates are eligible to participate in the Plan.

The Plan provides for the grant of stock options (both nonstatutory and incentive stock options), stock grants, stock units and stock appreciation rights. Awards under the Plan will be evidenced by an agreement with the Plan participant. Under the Plan, 861,038 shares of the Company's Common Stock ("Shares") are available for awards. Under the Plan no recipient may be awarded any of the following during any fiscal year: (i) stock options covering in excess of 500,000 Shares; (ii) stock grants and stock units covering in excess of 250,000 Shares in the aggregate; or (iii) stock appreciation rights covering more than 500,000 Shares. In addition, awards to non-employee directors are discretionary. However, a non-employee director may not be granted awards covering in excess of 30,000 Shares in the aggregate during any fiscal year.

The 1995 Directors' Stock Option Plan (the "Directors' Plan") provided that each person who became a non- employee director of the Company, who has not received a previous grant, shall be granted a nonstatutory stock option to purchase 20,000 shares of Common Stock on the date on which the optionee first becomes a non-employee director of the Company. Thereafter, on the date of each annual meeting of the shareholders each non-employee director shall be granted an additional option to purchase 10,000 shares of Common Stock if, on such date, he or she shall have served on the Company's Board of Directors for at least six months prior to the date of such annual meeting. The exercise price of the options is the fair market value of the Company's Common Stock on the date the options are granted. Options granted under this plan are exercisable and vest upon grant.

The 1996 Non-Executive Stock Option Plan authorized the Board of Directors to grant non-qualified stock options to employees, including executive officers, and outside consultants of the Company. The exercise price of the options was equal to the fair market value of the Company's Common Stock on the date the options were granted. Options are generally exercisable upon vesting and generally vest ratably over four years and are subject to repurchase if exercised before being vested.

The 1996 Stock Option Plan authorized the Board of Directors to grant stock purchase rights, incentive stock options or non-statutory stock options to Landec executives. The exercise price of the stock purchase rights, incentive stock options and non-statutory stock options may be no less than 100% of the fair market value of Landec's Common Stock on the date the options were granted. Options generally are exercisable upon vesting, generally vest ratably over four years and are subject to repurchase if exercised before being vested.

The New Executive Stock Option Plan authorized the Board of Directors to grant non-statutory stock options to officers of Landec or officers of Apio or Landec Ag whose employment with each of those companies began after October 24, 2000. The exercise price of the non-statutory stock options may be no less than 100% and 85%, for named executives and non-named executives, respectively, of the fair market value of Landec's Common Stock on the date the options were granted. Options generally are exercisable upon vesting, generally vest ratably over four years and are subject to repurchase if exercised before being vested.

On April 15, 2005, the Board of Directors of the Company approved the accelerated vesting of all unvested options previously granted to employees under the Company's 1996 Stock Option Plans (collectively, the "Plans") which have an exercise price greater than $6.25 (the "Acceleration") the closing price of the Company's Common Stock on April 15, 2005 in order to avoid recognizing an expense in future periods once the Company adopts SFAS 123R.

Pursuant to the Acceleration, options granted under the Plans to purchase 192,026 shares of the Company's common stock that would otherwise have vested at various times within three years from April 15, 2005 became fully vested. As a result of the Board's decision to approve the Acceleration, each option agreement underlying options subject to the Acceleration is deemed to be amended to reflect the Acceleration as of the effective date, but all other terms and conditions of each such option agreement remains in full force and effect. On the date of the Acceleration no compensation expense was recorded because the fair market value of the Company's Common Stock was below the exercise price of the options that were accelerated.

Financials

Activity under all Landec Stock Option Plans is as follows:

		Outstanding Options	
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price
Balance at May 25, 2003	1,179,856	4,054,244	$4.63
Additional shares reserved	400,000	—	
Options granted	(161,000)	161,000	$5.20
Options exercised	—	(152,659)	$2.68
Options forfeited	139,824	(139,824)	$4.77
Expired in 1988 Plan	(20,135)	—	
Balance at May 30, 2004	1,538,545	3,922,761	$4.81
Options granted	(625,000)	625,000	$6.54
Options exercised	—	(397,772)	$3.80
Options forfeited	27,493	(27,493)	$4.98
Balance at May 29, 2005	941,038	4,122,496	$5.08
Additional shares reserved	861,038	—	
Options/RSUs granted	(83,333)	83,333	$6.69
Options exercised	—	(1,027,718)	$5.83
Options forfeited	59,762	(59,762)	$6.36
Terminated plans	(920,800)	—	
Balance at May 28, 2006	857,705	3,118,349	$4.85

At May 28, 2006 and May 29, 2005 options to purchase 2,934,930 and 3,636,106 shares of Landec's Common Stock were vested, respectively. No options have been exercised prior to being vested.

The Company issued 833 restricted stock units (RSUs) during fiscal year 2006 at a price of $7.53 per share. The restricted stock units vest at the end of three years. These units are included in the table above under options granted.

The following tables summarize information about Landec's options outstanding and exercisable at May 28, 2006 (excluding the 833 RSUs granted in fiscal year 2006).

	Options Outstanding		
Range of Exercise Prices	Number of Shares	Weighted Average Contractual Life (In Years)	Weighted Average Exercise Price
$1.660 - $2.950	315,834	6.64	2.28
$3.180 - $3.375	454,600	4.96	3.30
$3.400 - $3.800	325,177	4.84	3.59
$4.094 - $4.938	210,500	3.53	4.87
$5.000 - $5.000	735,600	1.59	5.00
$5.250 - $6.130	425,534	5.49	6.05
$6.250 - $7.625	650,271	6.32	6.84
$1.660 - $7.625	3,117,516	4.58	4.85

	Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Exercise Price
$1.660 — $2.950	271,376	2.28
$3.180 — $3.375	450,224	3.30
$3.400 — $3.800	321,113	3.59
$4.094 — $4.938	210,500	4.87
$5.000 — $5.000	735,600	5.00
$5.250 — $6.130	298,346	6.03
$6.250 — $7.625	647,771	6.84
$1.660 — $7.625	2,934,930	4.83

Employee Stock Purchase Plan. The Company has an employee stock purchase plan which permits eligible employees to purchase Common Stock, which may not exceed 10% of an employee's compensation, at a price equal to the lower of 85% of the fair market value of the Company's Common Stock at the beginning of the offering period or on the purchase date. As of May 28, 2006, 851,523 shares have been issued under the Employee Stock Purchase Plan. The Employee Stock Purchase Plan was terminated on June 1, 2006.

Landec Ag Stock Plan. Under the 1996 Landec Ag Stock Plan, the Board of Directors of Landec Ag could grant stock purchase rights, incentive stock options or non-statutory stock options to employees and outside consultants. The exercise price of the stock purchase rights, incentive stock options and non-statutory stock options may be no less than 85%, 100% and 85%, respectively, of the fair market value of Landec Ag's common stock as determined by Landec Ag's Board of Directors. 2,000,000 shares were authorized to be issued under this plan. Options generally are exercisable upon vesting and generally vest ratably over four years and are subject to repurchase if exercised before being vested. The Landec Ag Stock Plan terminated on January 1, 2006.

The following table summarizes activity under the Landec Ag Stock Option.

		Outstanding Options	
	Options Available	Number of Shares	Weighted Average Exercise Price
Balance at May 25, 2003	228,918	1,445,000	$0.41
Options granted	(10,000)	10,000	$1.50
Options exercised	—	—	—
Options forfeited	195,150	(195,150)	$0.50
Balance at May 30, 2004	414,068	1,259,850	$0.41
Options granted	—	—	—
Options exercised	—	(503,895)	$0.10
Options forfeited	165,855	(165,855)	$1.00
Balance at May 29, 2005	579,923	590,100	$0.71
Options granted	—	—	—
Options exercised	—	—	—
Options forfeited	52,313	(52,313)	$0.94
Expired in Plan	(632,236)	—	—
Balance at May 28, 2006	—	537,787	$0.69

At May 28, 2006, options to purchase 532,719 shares with an average exercise price of $0.68 per share of Landec Ag's common stock were vested. For the options outstanding at May 28, 2006, 74,000 options were granted with an exercise price of $0.10, 127,900 options were granted with an exercise price of $0.20 and 335,887 were granted with an exercise price of $1.00. As of May 28, 2006, the Company has 537,787 common shares reserved for future issuance under the Landec Ag stock option plan.

Apio Stock Plan. In connection with the acquisition of Apio, the Board of Directors of Landec authorized the establishment of the 1999 Apio Stock Option Plan ("1999 Plan"). Under the 1999 Plan, the Board of Directors of Apio may grant incentive stock options or non-statutory stock options to employees and outside consultants. The exercise price of the incentive stock options and non-statutory stock options may be no less than 100% and 85%, respectively, of the fair market value of Apio's common stock as determined by Apio's Board of Directors. Five million shares were authorized to be issued under this plan. Options were exercisable upon vesting and generally vested ratably over four years and were subject to repurchase if exercised before being vested. As of May 28, 2006, options for two million shares had been granted at an exercise price of $2.10 per share.

In May 2000, the 1999 Plan was terminated. All existing grants remain outstanding, and no future grants will be made from the plan. Concurrently, the 2000 Apio Stock Option Plan ("2000 Plan") was authorized by Apio's Board of Directors, which authorized the issuance of two million shares under the same terms and conditions as the 1999 Plan. As of May 28, 2006, options for 268,695 shares are outstanding under the 2000 Plan at an exercise price of $2.10 per share.

The following table summarizes activity under the Apio Stock Option Plan.

		Outstanding Options	
	Options Available	Number of Shares	Weighted Average Exercise Price
Balance at May 25, 2003	1,483,792	2,515,625	$2.10
Options granted	—	—	—
Options exercised	—	(49,166)	$2.10
Options forfeited	79,680	(79,680)	$2.10
Balance at May 30, 2004	1,563,472	2,386,779	$2.10
Options granted	—	—	—
Options exercised	—	—	—
Options forfeited	59,457	(59,457)	$2.10
Balance at May 29, 2005	1,622,929	2,327,322	$2.10
Options granted	—	—	—
Options exercised	—	(50,158)	$2.10
Options forfeited	8,469	(8,469)	$2.10
Balance at May 29, 2006	1,631,398	2,268,695	$2.10

At May 28, 2006, options to purchase 2,268,695 shares of Apio common stock were vested. As of May 28, 2006, the Company has 3,900,093 common shares reserved for future issuance under the Apio stock option plans.

10. Debt

Revolving debt

On September 1, 2004, Apio entered into with Wells Fargo Bank N.A. ("Wells Fargo") a new $10 million revolving line of credit that expires on August 31, 2006, a 12-month, $4.8 million equipment line of credit, and a 36-month, $1.2 million term note for equipment purchased under the equipment line of credit with Wells Fargo Business Credit (collectively the "Loan Agreement"). At May 29, 2005, no amounts were outstanding under the revolving line of credit or the equipment line of credit.

On November 1, 2005, Apio amended its revolving line of credit with Wells Fargo Bank N.A. that was scheduled to expire on August 31, 2006. The line was reduced from $10.0 million to $7.0 million and outstanding amounts under the line of credit now bear interest at either the prime rate less .25% or the LIBOR adjustable rate plus 1.75% (6.84% at May 28, 2006). The Loan Agreement contains certain restrictive covenants, which require Apio to meet certain financial tests, including minimum levels of net income, maximum leverage ratio, minimum net worth and maximum capital expenditures. Landec has pledged substantially all of the assets of Apio to secure the lines with Wells Fargo. At May 28, 2006 and May 29, 2005, no amounts were outstanding under the revolving line of credit or the equipment line of credit.

Landec Ag has a revolving line of credit which allows for borrowings of up to $7.5 million, based on Landec Ag's inventory levels. The interest rate on the revolving line of credit is the prime rate (8.00% at May 28, 2006). Landec has pledged substantially all of the assets of Landec Ag to secure the line of credit. At May 28, 2006 and May 29, 2005, no amounts were outstanding under this revolving line of credit.

Long-Term Debt

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

	May 28, 2006	May 29, 2005
Note payable of Apio to a commercial finance company; due in monthly installments of $12,795 including variable interest currently at 7.23% with final payment due December 2019	$ 1,338	$1,400
Note payable of Apio to a bank; due in monthly installments of $33,333 including interest at 4.96% with final payment due August 2007	—	934
Note payable of Apio to a bank; due in monthly installments of $7,739 including variable interest currently at 7.76% with final payment due December 2015	630	675
Capitalized lease obligations in monthly installments of $1,979 with an interest rate of 5.90% with final payment due August 2008	50	79
	2,018	3,088
Less current portion	(2,018)	(548)
	$ —	$2,540

At May 28, 2006, all of the debt is classified as current as the Company repaid in June 2006 the notes payable balances due to escalating interest rates on the debt.

The term debt and revolving note agreements contains various financial covenants including minimum fixed coverage ratio, minimum current ratio, minimum adjusted net worth and maximum leverage ratios.

Landec has pledged substantially all of Apio's and Landec Ag's assets to secure their term debt.

11. Income Taxes

The Company recorded an income tax provision based on the federal alternative minimum tax rate in the amount of $11,000 for the fiscal year ended May 28, 2006, $6,000 for the fiscal year ended May 29, 2005 and $50,000 for the fiscal year ended May 30, 2004. These amounts are included in other (expense)/income in the accompanying Consolidated Statements of Income.

The actual provision for income taxes differs from the statutory U.S. federal income tax rate as follows (in thousands):

	Year Ended May 28, 2006	Year Ended May 29, 2005	Year Ended May 30, 2004
Provision at U.S. statutory rate of 34%	$ 2,949	$ 1,839	$1,003
State income taxes, net of federal benefit	506	315	172
Change in valuation allowance	(3,788)	(2,017)	(703)
Tax credit carryforwards	375	(200)	(396)
Other	(31)	69	(26)
Total	$ 11	$ 6	$ 50

As of May 28, 2006, the Company had federal and state net operating loss carryforwards of approximately $42.0 million and $9.7 million, respectively. These losses expire in different periods through 2025, if not utilized. The Company also had federal and state tax credit carryforwards of approximately $1.3 million and $1.2 million, respectively. The research and development tax credit carryforwards expire in different periods through 2026 for federal purposes and have an unlimited carryforward period for state purposes. The other state tax credit carryforwards expire in different periods through fiscal year 2013.

Utilization of the net operating losses and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses and credits before utilization.

Significant components of the Company's deferred tax assets are as follows (in thousands):

Deferred Tax Assets:	May 28, 2006	May 29, 2005
Net operating loss carryforwards	$ 14,900	$ 16,700
Research and AMT credit carryforwards	2,100	2,300
Capitalized research and development	100	100
Other — net	(4,700)	(3,200)
Net deferred tax assets	12,400	15,900
Valuation allowance	(12,400)	(15,900)
Net deferred tax assets	$ —	$ —

Included in the other net deferred tax assets is approximately $5.8 million of deferred tax liabilities that primarily relate to book/tax basis differences in fixed assets and intangibles.

Due to the Company's limited tax basis earnings history, the net deferred tax asset has been fully offset by a valuation allowance. The change in the valuation allowance was a decrease of $3.5 million, an increase of $700,000 and a decrease of $1.3 million for the fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004, respectively. Approximately $840,000 of the valuation allowance for deferred tax assets as of May 28, 2006 relates to benefits of stock option deductions which, when recognized, will be allocated directly to contributed capital.

12. Commitments and Contingencies

Operating Leases

Landec leases facilities and equipment under operating lease agreements with various terms and conditions, which expire at various dates through 2010. The approximate future minimum lease payments under these operating leases, excluding farmland leases, at May 28, 2006 are as follows (in thousands):

	Amount
FY2007	$ 856
FY2008	583
FY2009	332
FY2010	95
FY2011	3
	$1,869

Rent expense for operating leases, including month to month arrangements was $1.4 million for the fiscal year ended May 28, 2006, $1.6 million for the fiscal year ended May 29, 2005 and $1.4 million for the fiscal year ended May 30, 2004.

Land Leases

Landec, through its Apio subsidiary, also leases farmland under various non-cancelable leases expiring through October 2006. Landec subleases substantially all of the farmland to growers on an annual basis. The subleases are generally non-cancelable and expire through October 2006. The approximate future minimum leases and sublease amounts receivable under farmland leases at May 28, 2006 are $207,000 for fiscal year 2007.

Rent income for land leases net of sublease rents, including month to month arrangements was $25,000 for the fiscal year ended May 28, 2006. Rent expense for land leases net of sublease rents, including month to month arrangements was $51,000 for the fiscal year ended May 29, 2005 and $16,000 for the fiscal year ended May 30, 2004.

Employment Agreements

Landec has entered into employment agreements with certain key employees. These agreements provide for these employees to receive incentive bonuses based on the financial performance of certain divisions in addition to their annual base salaries. The accrued incentive bonuses amounted to $506,000 at May 28, 2006 and $255,000 at May 29, 2005.

Licensing Agreement

In fiscal year 2001, the Company entered into an agreement for the exclusive worldwide rights to market grapes under certain brand names. Under the terms of the amended agreement (amended in fiscal year 2004), the Company is obligated to make annual payments of $100,000 for fiscal years 2005 through 2012.

Purchase Commitments

At May 28, 2006, the Company was committed to purchase $986,000 of produce during fiscal year 2007 in accordance with contractual terms. Payments of $704,000 were made in fiscal year 2006 under this arrangement.

13. Employee Savings and Investment Plans

The Company sponsors a 401(k) plan which is available to substantially all of the Company's employees.

Landec's Corporate Plan, which is available to all Landec employees ("Landec Plan"), allows participants to contribute from 1% to 50% of their salaries, up to the Internal Revenue Service (IRS) limitation into designated investment funds. Beginning in fiscal year 2001, the Company amended the plan so that it contributes an amount equal to 50% of the participants' contribution up to 3% of the participants' salary. In May 2003, the Company again amended the plan to make the Company's matching contribution to the plan on behalf of participants voluntary, and to make employees participation in the plan voluntary. Participants are at all times fully vested in their contributions. The Company's contribution vests over a four-year period at a rate of 25% per year. The Company retains the right, by action of the Board of Directors, to amend, modify, or terminate the plan. For the fiscal years ended May 28, 2006, May 29, 2005 and May 30, 2004, the Company contributed $335,000, $294,000 and $287,000, respectively, to the Landec Plan.

14. 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 fresh-cut vegetables that incorporate the Intelimer packaging technology for the fresh-cut and whole produce industry through its Apio subsidiary. The Agricultural Seed Technology segment markets and distributes hybrid seed corn to the farming industry and is selling seed coatings using Landec's proprietary Intelimer polymers through Landec Ag and other seed companies. The Corporate and Other segment includes the operations from the Company's Technology Licensing/Research and Development business and corporate operating expenses. 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. Virtually all of the Company's international sales are to Asia. Operations and identifiable assets by business segment consisted of the following (in thousands):

	Food Products Technology	Agricultural Seed Technology	Corporate and Other	Total
Fiscal Year Ended May 28, 2006				
Net sales	$194,816	$34,096	$3,041	$231,953
International sales	$ 50,337	$ —	$ —	$ 50,337
Gross profit	$ 26,853	$10,439	$2,752	$ 40,044
Net income (loss)	$ 9,128	$(1,387)	$ 910	$ 8,651
Identifiable assets	$ 83,531	$32,613	$2,881	$119,025
Depreciation and amortization	$ 2,572	$ 533	$ 98	$ 3,203
Capital expenditures	$ 4,263	$ 439	$ 44	$ 4,746
Interest income	$ 502	$ 75	$ 56	$ 633
Interest expense	$ 300	$ 152	$ —	$ 452
Income tax expense (benefit)	$ —	$ —	$ —	$ —
Fiscal Year Ended May 29, 2005				
Net sales	$179,157	$25,648	$ 425	$205,230
International sales	$ 48,773	$ —	$ —	$ 48,773
Gross profit	$ 22,195	$ 9,448	$ 329	$ 31,972
Net income (loss)	$ 5,621	$ (316)	$ 97	$ 5,402
Identifiable assets	$ 72,511	$22,711	$4,853	$100,075
Depreciation and amortization	$ 2,890	$ 472	$ 105	$ 3,467
Capital expenditures	$ 3,134	$ 426	$ 98	$ 3,658
Interest income	$ 130	$ 57	$ 27	$ 214
Interest expense	$ 305	$ 109	$ —	$ 414
Income tax expense (benefit)	$ —	$ —	$ —	$ —
Seven Months Ended May 30, 2004				
Net sales	$167,886	$23,641	$ 565	$192,092
International sales	$ 48,679	$ —	$ —	$ 48,679
Gross profit	$ 20,231	$ 9,086	$ 474	$ 29,791
Net income (loss)	$ 3,232	$ (241)	$ (91)	$ 2,900
Identifiable assets	$ 72,088	$19,722	$1,197	$ 93,007
Depreciation and amortization	$ 3,110	$ 484	$ 111	$ 3,705
Capital expenditures	$ 2,997	$ 320	$ 76	$ 3,393
Interest income	$ 148	$ 9	$ 7	$ 164
Interest expense	$ 683	$ 128	$ —	$ 811
Income tax expense (benefit)	$ —	$ —	$ —	$ —

15. Quarterly Consolidated Financial Information (unaudited)

The following is a summary of the unaudited quarterly results of operations for fiscal years 2006, 2005 and 2004 (in thousands, except for per share amounts):

FY 2006	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	FY 2006
Revenues	$49,705	$53,712	$57,249	$71,287	$231,953
Gross profit	$ 6,590	$ 7,089	$11,415	$14,950	$ 40,044
Net income (loss)	$ (521)	$(1,037)	$ 3,514	$ 6,695	$ 8,651
Net income/(loss) per basic share	$ (0.02)	$ (0.04)	$ 0.14	$ 0.27	$ 0.35
Net income/(loss) per diluted share	$ (0.02)	$ (0.04)	$ 0.13	$ 0.24	$ 0.32

FY 2005	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	FY 2005
Revenues	$46,854	$50,672	$51,532	$56,172	$205,230
Gross profit	$ 5,741	$ 5,997	$ 9,242	$10,992	$ 31,972
Net income (loss)	$ (692)	$ (808)	$ 2,293	$ 4,609	$ 5,402
Net income/(loss) per basic share	$ (0.03)	$ (0.03)	$ 0.10	$ 0.19	$ 0.23
Net income/(loss) per diluted share	$ (0.03)	$ (0.03)	$ 0.09	$ 0.17	$ 0.21

FY 2004	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	FY 2004
Revenues	$41,803	$43,265	$48,587	$58,437	$192,092
Gross profit	$ 6,082	$ 5,030	$ 7,447	$11,232	$ 29,791
Net income (loss)	$ (624)	$(1,583)	$ 724	$ 4,383	$ 2,900
Net income/(loss) per basic share	$ (0.03)	$ (0.08)	$ 0.03	$ 0.20	$ 0.11
Net income/(loss) per diluted share	$ (0.03)	$ (0.08)	$ 0.03	$ 0.17	$ 0.12

(b) Index of Exhibits.

Exhibit Number:	Exhibit Title
2.4	Stock Purchase Agreement between The Lubrizol Corporation and the Registrant dated as of October 24, 2002, incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated October 24, 2002.
2.5	Purchase Agreement between the Registrant and Apio Fresh LLC and the Growers listed therein, dated as of July 3, 2003, incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated July 3, 2003.
3.1	Amended and Restated Bylaws of Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 19, 2005.
3.2	Ninth Amended and Restated Articles of Incorporation of Registrant, incorporated herein by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (File No. 33-80723) declared effective on February 12, 1996.
3.3	Certificate of Determination of Series A Preferred Stock, incorporated herein by reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1999.
3.4	Certificate of Determination of Series B Preferred Stock, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated October 25, 2001.
10.1	Form of Indemnification Agreement, incorporated herein by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 29, 2005.
10.3*	1995 Employee Stock Purchase Plan, as amended, and form of Subscription Agreement, incorporated herein by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1996.
10.5*	Form of Option Agreement for 1995 Directors' Stock Option Plan, incorporated herein by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1996.
10.6	Industrial Real Estate Lease dated March 1, 1993 between the Registrant and Wayne R. Brown & Bibbits Brown, Trustees of the Wayne R. Brown & Bibbits Brown Living Trust dated December 30, 1987, incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form S-1 (File No. 33-80723) declared effective on February 12, 1996.
10.15*	1996 Landec Ag Stock Option Plan and form of Option Agreements, incorporated herein by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1996.
10.16*	Form of Option Agreement for the 1996 Non-Executive Stock Option Plan, as amended, incorporated herein by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1996.
10.17*	1996 Amended and Restated Stock Option Plan, incorporated herein by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 29, 2001.
10.18*	Form of Option Agreement for 1996 Amended and Restated Stock Option Plan, incorporated herein by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 1997.
10.25*	Stock Option Agreement between the Registrant and Nicholas Tompkins dated as of November 29, 1999, incorporated herein by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1999.
10.26*	1999 Apio, Inc. Stock Option Plan and form of Option Agreement, incorporated herein by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1999.
10.28*	2000 Apio, Inc. Stock Option Plan and form of Option Agreement, incorporated herein by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K filed for the fiscal year ended October 29, 2000.

Exhibit Number:	Exhibit Title
10.29	Credit Agreement between Landec Ag, Inc. and Old National Bank dated as of June 5, 2000, as amended, incorporated herein by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 29, 2000.
10.30*	New Executive Stock Option Plan, incorporated herein by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 29, 2000.
10.35*	1996 Non-Executive Stock Option Plan, as amended, incorporated herein by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 28, 2001.
10.45*	Employment Agreement between the Registrant and Gary T. Steele effective as of January 1, 2006, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated December 15, 2005.
10.46	Fourth Amendment to Credit Agreement dated as of May 15, 2003, incorporated herein by reference to Exhibit 10.46 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 27, 2003.
10.47	Non-Competition Agreement between the Registrant and Apio Fresh LLC and the Growers listed therein, dated as of July 3, 2003, incorporated herein by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K dated July 3, 2003.
10.48	Supply Agreement between the Registrant and Apio Fresh LLC and the Growers listed therein, dated as of July 3, 2003, incorporated herein by reference to Exhibit 2.3 to the Registrant's Current Report on Form 8-K dated July 3, 2003.
10.53*	1995 Directors' Stock Option Plan, as amended, incorporated herein by reference to Exhibit 10.53 to the Registrant's Annual Report on Form 10-Q for the fiscal quarter ended May 25, 2003.
10.54+	2007 Cash Bonus Plan.
10.55+	Director Compensation Schedule.
10.56	Form of Notice regarding acceleration of stock option vesting , incorporated herein by reference to Exhibit 10.56 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 29, 2005.
10.59	Amended and Restated Credit Agreement by and among Apio, Inc. as Borrower, and Wells Fargo Bank, National Association, dated as of November 1, 2005, incorporated herein by reference to Exhibit 10.57 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended November 27, 2005.
10.60	Fifth Amendment to Credit Agreement dated as of October 7, 2004, incorporated herein by reference to Exhibit 10.58 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended November 27, 2005.
10.61	Credit Agreement dated as of October 7, 2005, incorporated herein by reference to Exhibit 10.59 to the Registrant's Annual Report on Form 10-Q for the fiscal quarter ended November 27, 2005.
10.63+#	License and research and development agreement between the Registrant and Air Products and Chemical, Inc. dated March 14, 2006.
10.64	2005 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated October 14, 2005.
10.65	Form of Stock Grant Agreement for 2005 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated October 14, 2005.
10.66+	Form of Notice of Stock Option Grant and Stock Option Agreement for 2005 Stock Incentive Plan.
10.67+	Form of Stock Unit Agreement for 2005 Stock Incentive Plan.
10.68	Form of Stock Appreciation Right Agreement for 2005 Stock Incentive Plan incorporated herein by reference to Exhibit 99.5 to the Registrant's Current Report on Form 8-K dated October 14, 2005.
21.1	Subsidiaries of the Registrant

Subsidiary	State of Incorporation
Landec Ag, Inc.	Delaware
Apio, Inc.	Delaware

23.1+ Consent of Independent Registered Public Accounting Firm.

24.1+ Power of Attorney — See page 76.

31.1+ CEO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

31.2+ CFO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

32.1+ CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

32.2+ CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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* Represents a management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to item 15(c) of Form 10-K.

+ Filed herewith.

Confidential treatment requested as to certain portions. The term "confidential treatment" and the mark "*" as used throughout the indicated Exhibit means that material has been omitted and separately filed with the SEC.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Menlo Park, State of California, on July 27, 2006.

LANDEC CORPORATION

By: /s/ Gregory S. Skinner

Gregory S. Skinner
Vice President of Finance and Administration
and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Gary T. Steele and Gregory S. Skinner, and each of them, as his attorney-in-fact, with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorney to any and all amendments to said Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Gary T. Steele Gary T. Steele	President and Chief Executive Officer and Director (Principal Executive Officer)	July 27, 2006
/s/ Gregory S. Skinner Gregory S. Skinner	Vice President of Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)	July 27, 2006
/s/ Nicholas Tompkins Nicholas Tompkins	Chief Executive Officer of Apio, Inc., Senior Vice President and Director	July 27, 2006
/s/ Robert Tobin Robert Tobin	Director	July 27, 2006
/s/ Duke Bristow Duke Bristow	Director	July 27, 2006
/s/ Frederick Frank Frederick Frank	Director	July 27, 2006

Signature	Title	Date
/s/ Stephen E. Halprin Stephen E. Halprin	Director	July 27, 2006
/s/ Richard S. Schneider Richard S. Schneider	Director	July 27, 2006
/s/ Kenneth E. Jones Kenneth E. Jones	Director	July 27, 2006

EXHIBIT INDEX

Exhibit Number	Exhibit Title
10.54	2007 Cash Bonus Plan.
10.55	Director Compensation Schedule.
10.63	License and research and development agreement between the Registrant and Air Products and Chemical, Inc. dated March 14, 2006.
10.66	Form of Notice of Stock Option Grant and Stock Option Agreement for 2005 Stock Incentive Plan.
10.67	Form of Stock Unit Agreement for 2005 Stock Incentive Plan.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney. See page 76.
31.1	CEO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	CFO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

CORPORATE DIRECTORY

BOARD OF DIRECTORS
Duke Bristow
Economist
UCLA Anderson School of Management

Frederick Frank
Vice Chairman and Director
Lehman Brothers, Inc.

Stephen Halprin
General Partner
OSCCO Ventures

Ken Jones
Chairman of the Board
Globe Wireless, Inc.

Richard S. Schneider,Ph.D.
Retired General Partner
Domain Associates

Gary T. Steele
Chairman of the Board
President and Chief Executive Officer
Landec Corporation

Robert Tobin
Retired CEO
AHOLD USA

Nicholas Tompkins
President and Chief Executive Officer
Apio, Inc.

CORPORATE MANAGEMENT
Gary T. Steele
Chairman of the Board
President and Chief Executive Officer

David D. Taft, Ph.D.
Chief Operating Officer
Landec Corporation

Nicholas Tompkins
President and Chief Executive Officer
Apio, Inc.

Thomas F. Crowley
President and Chief Executive Officer
Landec Ag, Inc.

Gregory S. Skinner
Vice President of Finance
and Administration and
Chief Financial Officer

Steven P. Bitler, Ph.D.
Vice President, Corporate Technology

INDEPENDENT AUDITORS
Ernst & Young LLP
San Jose, California

CORPORATE COUNSEL
Ropes & Gray LLP
San Francisco, California

SHAREHOLDERS'S INFORMATION
Transfer Agent and Registrar
The stock transfer agent and registrar for Landec Corporation is U.S. Stock Transfer of Glendale, California. Shareholders who wish to transfer their stock, or change the name in which the shares are registered, should contact:

US Stock Transfer Corporation
Attn: Shareholder Services
1745 Gardena Avenue
Glendale, California
91204-2991
818 502 1404

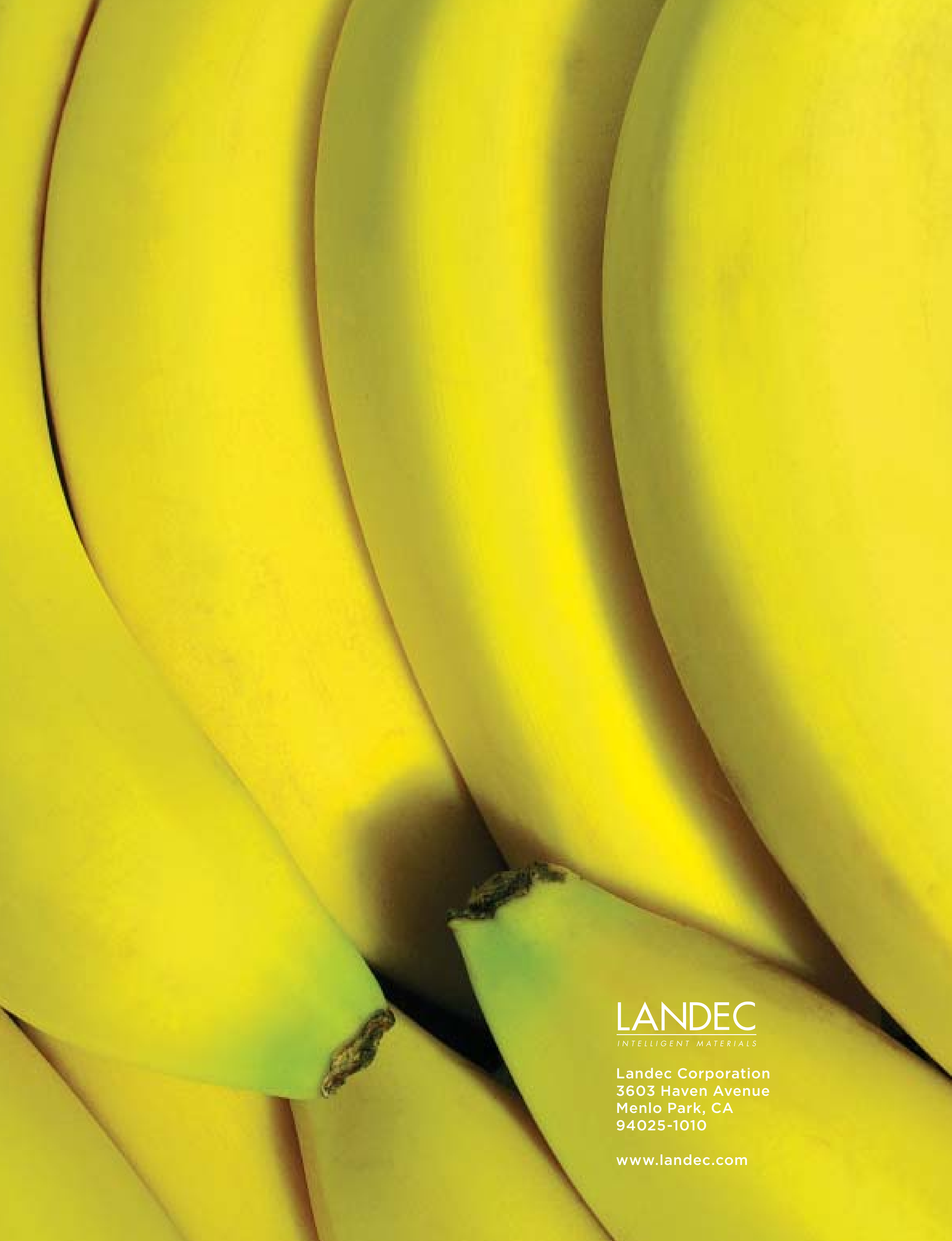
CORPORATE HEADQUARTERS
Landec Corporation
3603 Haven Avenue
Menlo Park, California 94025-1010
650 306 1650

STOCK LISTING
The Company's common stock is traded on the Nasdaq National Market under the symbol LNDC. The Company has filed an annual report on Form 10-K with the Securities and Exchange Commission. Shareholders may obtain a copy of this report and Form 10-K without charge by writing to the Company at:

3603 Haven Avenue
Menlo Park, California 94025
Attn: Investor Relations

Except for the historical information contained here, the matters discussed in the enclosed materials are forward-looking statements that involve certain risks and uncertainties that could cause actual results to differ materially including risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

Intelimer®
Apio®
Eat Smart®
BreatheWay™
Intellicoat®
Fielder's Choice Direct®
Early Plant®
Relay™ Cropping
Pollinator Plus®
Harvestar®
Heartland Hybrids®
are trademarks of Landec Corporation.



LANDEC
INTELLIGENT MATERIALS

Landec Corporation
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Menlo Park, CA
94025-1010

www.landec.com