LANDEC CORP \CA\
Form 10-Q
January 06, 2011
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Fiscal Quarter Ended November 28, 2010, or

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

For the Transition period from _____ to _________.

Commission file number: 0-27446

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

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

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

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

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

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ¨ No ¨

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

Large Accelerated Filer ¨ Accelerated Filer x

Non Accelerated Filer ¨ Smaller Reporting Company ¨

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

As of December 21, 2010, there were 26,591,582 shares of Common Stock outstanding.

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LANDEC CORPORATION

FORM 10-Q For the Fiscal Quarter Ended November 28, 2010

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LANDEC CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

| | November 28, 2010 (Unaudited) | May 30, 2010 (1) |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 5,447 | $ 27,817 |
| Marketable securities | 39,593 | 20,421 |
| Accounts receivable, less allowance for doubtful accounts of $250 and $189 at November 28, 2010 and May 30, 2010, respectively | 24,670 | 18,637 |
| Accounts receivable, related party | 461 | 729 |
| Income taxes receivable | 642 | 739 |
| Inventories, net | 19,744 | 16,107 |
| Notes and advances receivable | 1,169 | 241 |
| Deferred taxes | 1,363 | 1,262 |
| Prepaid expenses and other current assets | 1,459 | 2,989 |
| Total Current Assets | 94,548 | 88,942 |
| | | |
| Property, plant and equipment, net | 51,130 | 50,161 |
| Goodwill, net | 41,189 | 41,154 |
| Trademarks/tradenames, net | 12,428 | 12,428 |
| Customer relationships, net | 3,519 | 3,674 |
| Other assets | 4,214 | 3,838 |
| Total Assets | $ 207,028 | $ 200,197 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | $ 18,928 | $ 14,354 |
| Related party accounts payable | 122 | 349 |
| Accrued compensation | 2,147 | 2,043 |
| Other accrued liabilities | 2,909 | 3,277 |
| Deferred revenue | 2,241 | 3,391 |
| Current portion of long-term debt | 4,329 | 4,521 |
| Total Current Liabilities | 30,676 | 27,935 |
| | | |
| Long-term debt | 17,501 | 19,249 |
| Deferred revenue | — | 1,000 |
| Deferred taxes | 9,639 | 8,801 |
| Other non-current liabilities | 11,240 | 10,737 |
| Total Liabilities | 69,056 | 67,722 |
| | | |
| Stockholders' Equity: | | |
| Common stock, $0.001 par value; 50,000,000 shares authorized; 26,329,841 and 26,490,259 shares issued and outstanding at November 28, 2010 and May 30, 2010, respectively | 27 | 27 |

| | | | | |
|---|---|---|---|---|
| Additional paid-in capital | | 119,154 | | 117,730 |
| Accumulated other comprehensive loss | | (331) | | (179) |
| Retained earnings | | 17,565 | | 13,206 |
| Total Stockholders’ Equity | | 136,415 | | 130,784 |
| Noncontrolling interest | | 1,557 | | 1,691 |
| Total Equity | | 137,972 | | 132,475 |
| Total Liabilities and Stockholders’ Equity | $ | 207,028 | $ | 200,197 |

(1) Derived from audited financial statements.

See accompanying notes.

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | November 28, 2010 | November 29, 2009 | November 28, 2010 | November 29, 2009 |
| Revenues: | | | | |
| Product sales | $ 67,720 | $ 58,490 | $ 129,980 | $ 116,882 |
| Services revenue, related party | 986 | 914 | 2,051 | 2,080 |
| License fees | 1,350 | 1,350 | 2,700 | 2,700 |
| Research, development and royalty revenues | 112 | 179 | 389 | 213 |
| Total revenues | 70,168 | 60,933 | 135,120 | 121,875 |
| | | | | |
| Cost of revenue: | | | | |
| Cost of product sales | 56,478 | 52,009 | 107,202 | 102,115 |
| Cost of product sales, related party | 960 | 755 | 2,522 | 1,820 |
| Cost of services revenue | 875 | 752 | 1,725 | 1,653 |
| Total cost of revenue | 58,313 | 53,516 | 111,449 | 105,588 |
| | | | | |
| Gross profit | 11,855 | 7,417 | 23,671 | 16,287 |
| | | | | |
| Operating costs and expenses: | | | | |
| Research and development | 2,255 | 942 | 4,487 | 1,881 |
| Selling, general and administrative | 6,072 | 4,182 | 11,725 | 8,752 |
| Total operating costs and expenses | 8,327 | 5,124 | 16,212 | 10,633 |
| Operating income | 3,528 | 2,293 | 7,459 | 5,654 |
| | | | | |
| Interest income | 117 | 266 | 224 | 554 |
| Interest expense | (209) | (4) | (435) | (5) |
| Other expense | (44) | — | (102) | — |
| Net income before taxes | 3,392 | 2,555 | 7,146 | 6,203 |
| Income tax expense | (1,209) | (895) | (2,561) | (2,176) |
| Consolidated net income | 2,183 | 1,660 | 4,585 | 4,027 |
| Noncontrolling interest | (128) | (126) | (226) | (309) |
| Net income available to common stockholders | $ 2,055 | $ 1,534 | $ 4,359 | $ 3,718 |
| | | | | |
| Basic net income per share | $ 0.08 | $ 0.06 | $ 0.17 | $ 0.14 |
| | | | | |
| Diluted net income per share | $ 0.08 | $ 0.06 | $ 0.16 | $ 0.14 |
| | | | | |
| Shares used in per share computation: | | | | |
| Basic | 26,324 | 26,360 | 26,412 | 26,355 |
| Diluted | 26,560 | 26,676 | 26,639 | 26,670 |

See accompanying notes.

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

| | Six Months Ended | |
|---|---|---|
| | November 28, 2010 | November 29, 2009 |
| Cash flows from operating activities: | | |
| Net income applicable to Common Stockholders | $ 4,359 | $ 3,718 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,602 | 1,541 |
| Stock-based compensation expense | 962 | 412 |
| Tax benefit from stock-based compensation expense | (1,585) | (1,341) |
| Increase in long-term receivable | (400) | (400) |
| Noncontrolling interest | 227 | 309 |
| Deferred taxes | 737 | 474 |
| Changes in current assets and current liabilities: | | |
| Accounts receivable, net | (6,033) | (1,409) |
| Accounts receivable, related party | 268 | 264 |
| Income taxes receivable | 1,682 | — |
| Inventories, net | (3,637) | (953) |
| Issuance of notes and advances receivable | (1,565) | (1,363) |
| Collection of notes and advances receivable | 637 | 333 |
| Prepaid expenses and other current assets | 1,530 | 364 |
| Accounts payable | 4,574 | 3,310 |
| Related party accounts payable | (227) | (230) |
| Income taxes payable | — | 1,421 |
| Accrued compensation | 104 | (52) |
| Other accrued liabilities | (17) | 230 |
| Deferred revenue | (2,150) | (2,420) |
| Net cash provided by operating activities | 2,068 | 4,208 |
| | | |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (3,450) | (3,159) |
| Purchase of marketable securities | (41,784) | (60,495) |
| Proceeds from maturities and sales of marketable securities | 22,612 | 17,234 |
| Net cash used in investing activities | (22,622) | (46,420) |
| | | |
| Cash flows from financing activities: | | |
| Repurchase of outstanding common stock | (1,184) | — |
| Taxes paid by Company for stock swaps to cover taxes on RSUs | (49) | (53) |
| Proceeds from sale of common stock | 109 | 17 |
| Tax benefit from stock-based compensation | 1,585 | 1,341 |
| Payments on long-term debt | (1,940) | — |
| Decrease in other assets | 24 | — |
| Payments to minority interest holders | (361) | (330) |
| Net cash (used in) provided by financing activities | (1,816) | 975 |
| Net decrease in cash and cash equivalents | (22,370) | (41,237) |
| Cash and cash equivalents at beginning of period | 27,817 | 43,459 |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents at end of period | $ | 5,447 | $ | 2,222 |
| Supplemental schedule of noncash operating activities: | | | | |
| Income tax expense not payable | $ | 1,585 | $ | 1,341 |
| Long-term receivable from Monsanto for guaranteed termination fee | $ | 400 | $ | 400 |
| Unrealized loss from interest rate swap | $ | 152 | $ | — |

See accompanying notes.

LANDEC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Organization

Landec Corporation and its subsidiaries ("Landec" or the "Company") design, develop, manufacture and sell polymer products for food and agricultural products, medical devices and licensed partner applications that incorporate Landec's patented polymer technologies. The Company has two proprietary polymer technology platforms: 1) Intelimer® polymers, and 2) hyaluronan ("HA") biopolymers. The Company's proprietary polymer technologies are the foundation, and a key differentiating advantage, upon which Landec has built its business. The Company sells specialty packaged fresh-cut vegetables and whole produce to retailers and club stores, primarily in the United States and Asia through its Apio, Inc. ("Apio") subsidiary, Hyaluronan-based biomaterials through its Lifecore Biomedical, Inc. ("Lifecore") subsidiary, and Intellicoat® coated seed products through its Landec Ag LLC ("Landec Ag") subsidiary.

Basis of Presentation

The accompanying unaudited consolidated financial statements of Landec have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made which are necessary to present fairly the financial position at November 28, 2010 and the results of operations and cash flows for all periods presented. Although Landec believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted per the rules and regulations of the Securities and Exchange Commission. The accompanying financial data should be reviewed in conjunction with the audited financial statements and accompanying notes included in Landec's Annual Report on Form 10-K for the fiscal year ended May 30, 2010.

The results of operations for the six months ended November 28, 2010 are not necessarily indicative of the results that may be expected for an entire fiscal year due to some seasonality in Apio's food business, particularly, Apio's Export business.

Basis of Consolidation

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

The Company follows accounting guidance which addresses the consolidation of variable interest entities ("VIEs"). Under the accounting guidance, arrangements that are not controlled through voting or similar rights are accounted for as VIEs. An enterprise is required to consolidate a VIE if it is the primary beneficiary of the VIE.

Under accounting guidance, a VIE is created when (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (ii) the entity's equity holders as a group either: (a) lack direct or indirect ability to make decisions about the entity through voting or similar rights, (b) are not obligated to absorb expected losses of the entity if they occur, or (c) do not have the right to receive

expected residual returns of the entity if they occur. If an entity is deemed to be a VIE, the enterprise that is deemed to absorb a majority of the expected losses or receive a majority of expected residual returns of the VIE is considered the primary beneficiary and must consolidate the VIE.

Use of Estimates

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

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

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. These securities consist mainly of certificate of deposits (CDs), money market funds and U.S. Treasuries. Short-term marketable securities consist of CDs that are FDIC insured and single A or better rated municipal bonds with original maturities of more than three months at the date of purchase regardless of the maturity date as the Company views its portfolio as available for use in its current operations. The aggregate amount of CDs included in marketable securities at November 28, 2010 and May 30, 2010 was $755,000 and $1.5 million, respectively. The Company classifies all debt securities with readily determined market values as "available for sale". The contractual maturities of the Company's marketable securities that are due in less than one year represent $28.8 million of its marketable securities and those due in one to two years represent the remaining $10.8 million of the Company's marketable securities as of November 28, 2010. These investments are classified as marketable securities on the consolidated balance sheet as of November 28, 2010 and May 30, 2010 and are carried at fair market value. Unrealized gains and losses are reported as a component of stockholders' equity. 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 not significant for the three and six months ended November 28, 2010 and November 29, 2009. During the three and six months ended November 28, 2010, the Company received proceeds of $5.0 million and $9.9 million, respectively, from the sale of marketable securities. The cost of securities sold is based on the specific identification method.

Financial Instruments

The Company's financial instruments are primarily composed of marketable debt securities, commercial-term trade payables, grower advances, and notes receivable, 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 November 28, 2010.

Investment in Non-Public Company

The Company's investment in Aesthetic Sciences Corporation ("Aesthetic Sciences"), a medical device company, is carried at cost and adjusted for impairment losses. 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 based on the financial stability and viability of Aesthetic Sciences. Aesthetic Sciences sold the rights to its Smartfil™ Injector System on July 16, 2010. Landec has evaluated its cost method investment for impairment, using a discounted cash flow analysis which included the terms of the purchase agreement. Based on the terms of the agreement, the Company had determined that its investment in Aesthetic Sciences was other than temporarily impaired and therefore recorded an impairment loss of $1.0 million as of May 30, 2010. The Company's carrying value of its investment in Aesthetic Sciences of $792,000 at November 28, 2010 is reported as a component of other non current assets.

Fair Value Measurements

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

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

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

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

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

As of November 28, 2010, the Company held certain assets that are required to be measured at fair value on a recurring basis. These included the Company's cash equivalents and marketable securities for which the fair value is determined based on observable inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Company has categorized its cash equivalents and marketable securities as Level 1. As of November 28, 2010, the Company recorded to Other Comprehensive Loss on the Consolidated Balance Sheets an unrealized loss of $331,000, net of taxes of $210,000, as a result of an interest rate swap agreement entered into during fiscal year 2010. The unrealized loss was based on a Level 2 hierarchy for fair value measurements. If the interest rate swap is terminated or the debt borrowed is paid off prior to April 30, 2015, the amount of unrealized loss or gain included in Other Comprehensive Income (Loss) would be reclassified to earnings. The Company has no intentions of terminating the interest rate swap or prepaying the debt in the next twelve months. The interest rate swap liability is included in other non-current liabilities as of November 28, 2010 and May 30, 2010. The Company has no other financial assets or liabilities for which fair value measurement has been adopted.

New Accounting Pronouncements

Recently Adopted Pronouncements

Variable Interest Entities

In June 2009, the FASB issued new guidance which amends the evaluation criteria to identify the primary beneficiary of a VIE. Additionally, the new guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary of the VIE. The Company adopted the new guidance on May 31, 2010 and such adoption did not have an impact on the Company's results of operations or financial position for the three and six months ended November 28, 2010.

Revenue Recognition

In October 2009, the FASB issued new guidance in relation to "Multiple-Deliverable Revenue Arrangements". The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. The Company early adopted these standards as of May 31, 2010. There have been no materially modified agreements since the adoption of the standard. The adoption did not have an impact on the Company's results of operations or financial position for the three and six months ended November 28, 2010.

2. Acquisition of Lifecore Biomedical, Inc.

On April 30, 2010 (the "Acquisition Date"), the Company acquired all of the common stock of Lifecore Biomedical, Inc. ("Lifecore") under a Stock Purchase Agreement ("Purchase Agreement") in order to expand its product offerings and enter into new markets. Located in Chaska, Minnesota, Lifecore was a privately-held hyaluronan-based biomaterials company located in Chaska, Minnesota. Lifecore is principally involved in the development and manufacture of products utilizing hyaluronan, a naturally occurring polysaccharide that is widely distributed in the extracellular matrix of connective tissues in both animals and humans. In addition, Lifecore has licensed a sodium hyaluronate

cross-linking technology from The Cleveland Clinic Foundation designed to provide a development vehicle for a product platform to introduce new products for the existing medical segments, as well as potentially new market segments. Furthermore, Lifecore is pursuing other development activities to utilize its fermentation and aseptic filling capabilities for non-hyaluronan based products.

Under the Purchase Agreement, the aggregate consideration payable by the Company to the former Lifecore stockholder at closing consisted of $40.0 million in cash, which included $6.6 million that is held in an escrow account to secure the indemnification rights of Landec and other indemnities with respect to certain matters, including breaches of representations, warranties and covenants included in the Purchase Agreement. The escrow account is in the name of the seller and Landec's right under the escrow agreement consist solely of its ability to file a claim against the escrow. In addition, the Company may be required to pay in cash up to an additional $10.0 million in earnout payments in the event that Lifecore achieves certain revenue targets in calendar years 2011 and 2012.

The acquisition date fair value of the total consideration transferred was $49.65 million, which consisted of the following (in thousands):

| | | |
|---|---|---|
| Cash | $ | 40,000 |
| Contingent consideration | | 9,650 |
| Total | $ | 49,650 |

The assets and liabilities of Lifecore were recorded at their respective estimated fair values as of the date of the acquisition using generally accepted accounting principles for business combinations. The excess of the purchase price over the fair value of the net identifiable assets acquired has been allocated to goodwill. Goodwill represents a substantial portion of the acquisition proceeds because the Lifecore trade name provides the Company with entry into the growing, higher margin hyaluronan product market. Management believes that there is further growth potential by extending Lifecore's product lines into new channels.

The following table summarizes the estimated fair values of Lifecore's assets acquired and liabilities assumed and related deferred income taxes, effective April 30, 2010, the date the Company obtained control of Lifecore (in thousands).

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 318 |
| Accounts receivable, net | | 1,860 |
| Inventories, net | | 9,009 |
| Property and equipment | | 25,529 |
| Other tangible assets | | 1,455 |
| Intangible assets | | 7,900 |
| Total identifiable assets acquired | | 46,071 |
| Accounts payable and other liabilities | | (2,983) |
| Long-term debt | | (4,157) |
| Deferred taxes | | (3,109) |
| Total liabilities assumed | | (10,249) |
| Net identifiable assets acquired | | 35,822 |
| Goodwill | | 13,828 |
| Net assets acquired | $ | 49,650 |

The Company used a combination of the market and cost approaches to estimate the fair values of the Lifecore assets acquired and liabilities assumed.

Inventory

A step-up in the value of inventory of $523,000 was recorded in the allocation of the purchase price based on valuation estimates. During the three and six months ended November 28, 2010, $132,000 and $294,000, respectively, of this step-up was charged to cost of products sold as the inventory was sold. As of November 28, 2010, $137,000 of

the step-up remained in inventory.

Intangible Assets

The Company identified two intangible assets in connection with the Lifecore acquisition: trade names valued at $4.2 million, which is considered to be an indefinite life asset and therefore will not be amortized; and customer base valued at $3.7 million with a twelve year useful life. The trade name intangible asset was valued using the relief from royalty valuation method and the customer relationship intangible asset was valued using the multi-period excess earnings method.

Goodwill

The excess of the consideration transferred over the fair values assigned to the assets acquired and liabilities assumed was $13.8 million, which represents the goodwill amount resulting from the acquisition which can be attributable to its long history and future prospects. None of the goodwill is expected to be deductible for income tax purposes. The Company will test goodwill for impairment on an annual basis or sooner, if deemed necessary. As of November 28, 2010, there were no changes in the recognized amount of goodwill resulting from the acquisition of Lifecore.

Liability for Contingent Consideration

In addition to the cash consideration paid to the former shareholder of Lifecore, the Company may be required to pay up to an additional $10.0 million in earnout payments based on Lifecore achieving certain revenue targets in calendar years 2011 and 2012. The fair value of the liability for the contingent consideration recognized on the acquisition date was $9.75 million and $9.65 million, as of November 28, 2010 and May 30, 2010, respectively, and is classified as a non current liability in the Consolidated Balance Sheets. The Company determined the fair value of the liability for the contingent consideration based on a probability-weighted discounted cash flow analysis. This fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. The Company projects that it will pay the entire $10 million earn out during the third quarter of fiscal year 2012.

3. License Agreement with Monsanto Company

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

On December 1, 2006, Landec also entered into a five-year co-exclusive technology license and polymer supply agreement ("the Monsanto Agreement") with Monsanto for the use of Landec's Intellicoat polymer seed coating technology. Under the terms of the Monsanto Agreement, Monsanto agreed to pay Landec Ag $2.6 million per year. The Monsanto Agreement was amended in November 2009. Under the terms of the amended Monsanto Agreement, Monsanto continues to have an exclusive license to use Landec's Intellicoat polymer technology for specific seed treatment applications. Over the remaining two-year term of the amended Monsanto Agreement, Monsanto will investigate uses of Landec's Intellicoat technology in a variety of seed categories in the field exclusively licensed to Monsanto.

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

The Monsanto Agreement also provides for a fee payable to Landec Ag of $4 million if Monsanto elects to terminate the Monsanto Agreement or $10 million if Monsanto elects to purchase the rights to the exclusive field. If the purchase option is exercised before December 2011, or if Monsanto elects to terminate the Monsanto Agreement, all annual license fees and supply payments that have not been paid to Landec Ag will become due upon the purchase or termination. If Monsanto does not exercise its purchase option by December 2011 Landec Ag will receive the

termination fee and all rights to the Intellicoat seed coating technology will revert to Landec. Accordingly, we will receive aggregate minimum guaranteed payments of $17 million for license fees and polymer supply payments over five years or $23 million in aggregate maximum payments if Monsanto elects to purchase the rights to the exclusive field. The minimum guaranteed payments and the deferred gain of $2 million per year described above will result in Landec recognizing revenue and operating income of $5.4 million per year for fiscal years 2008 through 2011 and $2.7 million per year for fiscal years 2007 and 2012. The incremental $6 million to be received in the event Monsanto exercises the purchase option has been deferred and will be recognized upon the exercise of the purchase option. The fair value of the purchase option was determined by management to be less than the amount of the deferred revenue.

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

For each of the three and six months ended November 28, 2010 and November 29, 2009, Landec recognized $1.35 million and $2.7 million, respectively, in revenues from the Monsanto Agreement.

4. Other License Agreements

In December 2005, Landec entered into an exclusive licensing agreement with Aesthetic Sciences whereby Aesthetic Sciences paid Landec an upfront license fee of $250,000 for the exclusive rights to use Landec's Intelimer® materials technology for the development of dermal fillers worldwide under the agreement. Landec would also receive royalties on the sale of products incorporating Landec’s technology. In addition, the Company received shares of preferred stock originally valued at $1.3 million which represented a 19.9% ownership interest in Aesthetic Sciences as of December 2005.

As part of the original agreement with Aesthetic Sciences, Landec was to receive additional shares upon the completion of a specific milestone. In November 2006, that milestone was met and as a result Landec received an additional 800,000 shares of preferred stock originally valued at $481,000. The receipt of the additional 800,000 preferred shares did not change Landec’s 19.9% ownership interest in Aesthetic Sciences. During fiscal year 2009, Aesthetic Sciences completed a second preferred stock offering in which Landec did not participate and as a result Landec’s ownership interest in Aesthetic Sciences was 17.3% as of November 28, 2010 and May 30, 2010. Aesthetic Sciences sold the rights to its Smartfil™ Injector System on July 16, 2010. Landec has evaluated its investment in Aesthetic Sciences for impairment, utilizing a discounted cash flow analysis under the terms of the purchase agreement. Based on the terms of the recent sale, the Company had determined that its investment was other than temporarily impaired and therefore recorded an impairment charge of $1.0 million as of May 30, 2010. The Company’s carrying value of its investment in Aesthetic Sciences of $792,000 is included in other non current assets.

In March 2006, Landec entered into an exclusive license and research and development agreement with Air Products and Chemicals, Inc. (“Air Products”). Landec will provide research and development support to Air Products for three years with a mutual option for two additional years. The license fees were recognized as license revenue over a three year period beginning March 2006. In addition, in accordance with the agreement, Landec receives 40% of the gross profit generated from the sale of products by Air Products occurring after April 1, 2007, that incorporate Landec’s Intelimer materials.

In September 2007, the Company amended its licensing and supply agreement with Chiquita Brands International, Inc. (“Chiquita”). Under the terms of the amendment, the license for bananas was expanded to include additional exclusive fields using Landec’s BreatheWay® packaging technology, and a new exclusive license was added for the sale and marketing of avocados and mangos using Landec’s BreatheWay packaging technology. The agreement with Chiquita, which terminates in December 2011 (Chiquita has a five year renewal option), requires Chiquita to pay annual gross profit minimums to Landec in order for Chiquita to maintain its exclusive license for bananas, avocados and mangos. Under the terms of the agreement, Chiquita must notify Landec before December 1st of each year whether it is going to maintain its exclusive license for the following calendar year and thus agree to pay the minimums for that year. Landec was notified by Chiquita in November 2010 that Chiquita wanted to maintain its exclusive license for calendar year 2011 and thus agreed at that time to pay the minimum gross profit for calendar year 2011.

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

tomatoes (“exclusive products”). In accordance with the agreement, Apio received and recorded a one-time upfront research and development fee of $100,000 and will receive license fees equal to 3% of net revenue of the exclusive products utilizing the proprietary breathable packaging technology, with or without the BreatheWay® trademark. The ongoing license fees are subject to annual minimums of $150,000 for each of the three types of exclusive product as each is added to the agreement. As of November 28, 2010 only one product has been added to the agreement and the first year minimum payment period ends June 2011.

5. Stock-Based Compensation

In the three and six months ended November 28, 2010, the Company recognized stock-based compensation expense of $457,000 and $962,000 or $0.02 and $0.04 per basic and diluted share, respectively, which included $210,000 and $454,000 for restricted stock unit awards and $247,000 and $508,000 for stock option grants, respectively. In the three and six months ended November 29, 2009, the Company recognized stock-based compensation expense of $192,000 and $412,000 or $0.01 and $0.02 per basic and diluted share, respectively, which included $83,000 and $202,000 for restricted stock unit awards and $109,000 and $210,000 for stock option grants, respectively.

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

| | Three Months Ended November 28, 2010 | Three Months Ended November 29, 2009 | Six Months Ended November 28, 2010 | Six Months Ended November 29, 2009 |
|---|---|---|---|---|
| Research and development | $ 108,000 | $ 45,000 | $ 228,000 | $ 94,000 |
| Selling, general and administrative | $ 349,000 | $ 147,000 | $ 734,000 | $ 318,000 |
| Total stock-based compensation expense | $ 457,000 | $ 192,000 | $ 962,000 | $ 412,000 |

As of November 28, 2010, there was $3.8 million of total unrecognized compensation expense related to unvested equity compensation awards granted under the Company's incentive stock plans. Total expense is expected to be recognized over the weighted-average period of 2.3 years for stock options and 2.2 years for restricted stock unit awards.

6. Net Income Per Diluted Share

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

| | Three Months Ended November 28, 2010 | Three Months Ended November 29, 2009 | Six Months Ended November 28, 2010 | Six Months Ended November 29, 2009 |
|---|---|---|---|---|
| Numerator: | | | | |
| Net income available to common stockholders | $ 2,055 | $ 1,534 | $ 4,359 | $ 3,718 |
| | | | | |
| Denominator: | | | | |
| Weighted average shares for basic net income per share | 26,324 | 26,360 | 26,412 | 26,355 |
| Effect of dilutive securities: | | | | |
| Stock options and restricted stock units | 236 | 316 | 227 | 315 |
| Weighted average shares for diluted net income per share | 26,560 | 26,676 | 26,639 | 26,670 |
| | | | | |
| Diluted net income per share | $ 0.08 | $ 0.06 | $ 0.16 | $ 0.14 |

For the three months ended November 28, 2010 and November 29, 2009, the computation of the diluted net income per share excludes the impact of options to purchase 1.1 million shares and 1.1 million shares of Common Stock, respectively, as such impacts would be antidilutive for these periods.

For the six months ended November 28, 2010 and November 29, 2009, the computation of the diluted net income per share excludes the impact of options to purchase 2.0 million shares and 1.1 million shares of Common Stock, respectively, as such impacts would be antidilutive for these periods.

## 7. Income Taxes

The estimated annual effective tax rate for fiscal year 2011 is currently expected to be approximately 37%. The provision for income taxes for the three and six months ended November 28, 2010 was $1.2 million and $2.6 million, respectively.

As of May 30, 2010, the Company had unrecognized tax benefits of approximately $868,000. Included in the balance of unrecognized tax benefits as of May 30, 2010 is approximately $708,000 of tax benefits that, if recognized, would result in an adjustment to the Company's effective tax rate. The Company does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

In accordance with accounting guidance, the Company has decided to classify interest and penalties related to uncertain tax positions as a component of its provision for income taxes. The Company did not accrue interest and penalties relating to the income tax on the unrecognized tax benefits as of November 28, 2010 and May 30, 2010 as the amounts were not significant.

Due to tax attribute carryforwards, the Company is subject to examination for tax years 1994 forward for U.S. tax purposes. The Company was also subject to examination in various state jurisdictions for tax years 1998 forward, none of which were individually significant.

## 8. Goodwill and Other Intangibles

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

The Company tests its intangible assets for impairment at least annually, in accordance with accounting guidance. When evaluating indefinite-lived intangible assets for impairment, accounting guidance requires the Company to compare the fair value of the asset to its carrying value to determine if there is an impairment loss. When evaluating goodwill for impairment, accounting guidance requires the Company to first compare the fair value of the

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

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

The Company tested its indefinite-lived intangible assets and goodwill for impairment as of July 25, 2010 and determined that no adjustments to the carrying values of the intangible assets were necessary as of that date. As of November 28, 2010, there were no impairment indicators identified by the Company in its analysis of impairment associated with the acquired indefinite-lived intangible assets. On a quarterly basis, the Company considers the need to update its most recent annual tests for possible impairment of its intangible assets, based on management's assessment of changes in its business and other economic factors since the most recent annual evaluation. Such changes, if significant or material, could indicate a need to update the most recent annual tests for impairment of the intangible assets during the current period. The results of these tests could lead to write-downs of the carrying values of the intangible assets in the current period.

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

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

The DCF associated with the Technology Licensing reporting unit is based on the Monsanto Agreement with Monsanto. Under the Monsanto Agreement, Monsanto has agreed to pay Landec Ag a license fee of $2.6 million in cash per year for five years beginning in December 2006, and a fee of $4.0 million if Monsanto elects to terminate the Agreement, or $10.0 million if Monsanto elects to purchase the rights to the exclusive field. If the purchase option is exercised before December 2011, or if Monsanto elects to terminate the Monsanto Agreement, all annual license fees that have not been paid to Landec Ag will become due upon the purchase or termination.

The DCF associated with the Food Products Technology reporting unit is based on management's five-year projection of revenues, gross profits and operating profits by fiscal year and assumes a 37% effective tax rate for each year. Management takes into account the historical trends of Apio and the industry categories in which Apio operates along with inflationary factors, current economic conditions, new product introductions, cost of sales, operating expenses, capital requirements and other relevant data when developing its projection.

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

## 9. Inventories

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

| | November 28, 2010 | May 30, 2010 |
|---|---|---|
| Raw materials | $ 7,339 | $ 6,868 |
| Work in progress | 3,524 | 2,013 |
| Finished goods | 8,881 | 7,226 |
| Total | $ 19,744 | $ 16,107 |

## 10. Debt

On April 30, 2010 in conjunction with the acquisition of Lifecore, Lifecore entered into a new $20 million Credit Agreement with Wells Fargo Bank N.A. ("Wells Fargo") with a five year term that provides for equal monthly principal payments plus interest. All of Lifecore's assets, valued at approximately $81 million as of November 28, 2010, have been pledged to secure the debt incurred pursuant to the Credit Agreement. Landec is the guarantor of the debt.

On August 19, 2004, Lifecore issued variable rate industrial revenue bonds ("IRB"). These bonds were assumed by Landec in the acquisition of Lifecore (see Note 2). The bonds are collateralized by a bank letter of credit which is secured by a first mortgage on the Company's facility in Chaska, Minnesota. In addition, the Company pays an annual remarketing fee equal to 0.125% and an annual letter of credit fee of 0.50%.

The Credit Agreement and the IRB contain certain restrictive covenants, which require Lifecore to meet certain financial tests, including minimum levels of net income, minimum quick ratio, minimum fixed coverage ratio and maximum capital expenditures.

On August 9, 2010 and September 14, 2010, the Company amended its Credit Agreement with Wells Fargo to modify certain financial covenants. As of November 28, 2010, the Company was in compliance with all covenants.

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

| | November 28, 2010 | May 30, 2010 |
|---|---|---|
| Credit agreement with Wells Fargo; due in monthly payments of $333,333 through April 30, 2015 with interest payable monthly at Libor plus 2% per annum | $ 18,000 | $ 19,667 |
| Industrial revenue bond issued by Lifecore; due in annual payments through 2020 with interest at a variable rate set weekly by the bond remarketing agent (0.48% and 2.56% at November 28, 2010 and May 30, 2010, respectively) | 3,830 | 4,103 |
| Total | 21,830 | 23,770 |
| Less current portion | (4,329) | (4,521) |
| Long-term portion | $ 17,501 | $ 19,249 |

The maturities on the IRB are held in a sinking fund account, recorded in Prepaid expenses and other current assets in the accompanying Consolidated Balance Sheets and is paid out each year on September 1st.

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## 11. Derivative Financial Instruments

The Company is exposed to interest rate risks primarily through borrowings under its Credit Agreement with Wells Fargo (see Note 10). Interest on all of the Company's borrowings under its Credit Agreement is based upon variable interest rates. As of November 28, 2010, the Company had borrowings of $18.0 million outstanding under its Credit Agreement which bear interest at a rate equal to the one-month LIBOR plus 2%. As of November 28, 2010, the interest rate on borrowings under the Credit Agreement was accruing at 2.375%.

In May 2010, the Company entered into a five-year interest rate swap agreement under the Company's Credit Agreement which expires on April 30, 2015. The interest rate swap was designated as a cash flow hedge of future interest payments of LIBOR and has a notional amount of $20 million. As a result of the interest rate swap transaction, the Company fixed for a five-year period the interest rate at 4.24% subject to market based interest rate risk on $20 million of borrowings under its Credit Agreement. The Company's obligations under the interest rate swap transaction as to the scheduled payments were guaranteed and secured on the same basis as is its obligations under the Credit Agreement. As of November 28, 2010, the Company recorded to Other Comprehensive Loss on the Consolidated Balance Sheets an unrealized loss of $331,000, net of taxes of $210,000, as a result of the interest rate swap. The unrealized loss was based on Level 2 hierarchy for fair value measurements. If the interest rate swap is terminated or the debt borrowed is paid off prior to April 30, 2015, the amount of unrealized loss or gain included in Other Comprehensive Income (Loss) would be reclassified to earnings. The Company has no intentions of terminating the interest rate swap or prepaying the debt in the next twelve months. The interest rate swap liability is included in other non current liabilities as of November 28, 2010 and May 30, 2010.

## 12. Related Party

Apio provides cooling and distributing services for farms in which the Chairman of Apio (the "Apio Chairman") has a financial interest and purchases produce from those farms. Apio also purchases produce from Beachside Produce LLC for sale to third parties. Beachside Produce is owned by a group of entities and persons, including the Apio Chairman, that supply produce to Apio. Revenues and the resulting accounts receivable and cost of product sales and the resulting accounts payable are classified as related party items in the accompanying financial statements as of November 28, 2010 and May 30, 2010 and for the three and six months ended November 28, 2010 and November 29, 2009.

Apio's domestic commodity vegetable business was sold to Beachside Produce in 2003. The Apio Chairman is a 12.5% owner in Beachside Produce. During the three and six months ended November 28, 2010, the Company recognized revenues of $173,000 and $356,000, respectively, from the sale of products to Beachside Produce. During the three and six months ended November 29, 2009, the Company recognized revenues of $213,000 and $422,000, respectively, from the sale of products to Beachside Produce. The related accounts receivable from Beachside Produce are classified as related party in the accompanying financial statements as of November 28, 2010 and May 30, 2010.

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

## 13. Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income which for Landec includes changes in unrealized gains and losses on marketable securities and changes in unrealized gains and losses on its interest rate swap with Wells Fargo Bank, N.A. Accumulated other comprehensive loss is reported as a component of stockholders' equity. For the three and six months ended November 28, 2010, the net comprehensive loss from the

unrealized loss on the interest rate swap and from unrealized gains on marketable securities, net of income taxes, was a net loss of $0 and $331,000, respectively. For both the three and six months ended November 29, 2009, the comprehensive income from unrealized gains on marketable securities, net of income taxes, was $92,000. Accumulated other comprehensive income is reported as a component of stockholders’ equity.

## 14. Stockholders' Equity

During the three and six months ended November 28, 2010, 37,747 and 55,266 shares of Common Stock, respectively, were issued upon the vesting of RSUs and upon the exercise of options under the Company's equity plans.

During the three and six months ended November 28, 2010, the Company granted options to purchase 26,000 and 36,000 shares, respectively, of common stock and 8,667 and 12,000, respectively, of restricted stock unit awards.

As of November 28, 2010 the Company has reserved 3.6 million shares of Common Stock for future issuance under its current and former equity plans.

On July 14, 2010, the Company announced that the Board of Directors of the Company had approved the establishment of a stock repurchase plan which allows for the repurchase of up to $10 million of the Company's Common Stock. The Company may repurchase its common stock from time to time in open market purchases or in privately negotiated transactions. The timing and actual number of shares repurchased is at the discretion of management of the Company and will depend on a variety of factors, including stock price, corporate and regulatory requirements, market conditions, the relative attractiveness of other capital deployment opportunities and other corporate priorities. The stock repurchase program does not obligate Landec to acquire any amount of its common stock and the program may be modified, suspended or terminated at any time at the Company's discretion without prior notice. During the three and six months ended November 28, 2010, the Company repurchased on the open market 150,000 and 216,000 shares, respectively, of its Common Stock for $822,000 and $1.2 million, respectively.

## 15. Business Segment Reporting

Landec operates in four business segments: the Food Products Technology segment, the Export segment, the HA-based Biomaterials segment and the Technology Licensing segment. The Food Products Technology segment markets and packs specialty packaged whole and fresh-cut vegetables that incorporate the BreatheWay specialty packaging for the retail grocery, club store and food services industry. In addition, the Food Products Technology segment sells BreatheWay packaging to partners for non-vegetable products. The Export segment consists of revenues generated from the purchase and sale of primarily whole commodity fruit and vegetable products to Asia. The HA-based Biomaterials segment sells products utilizing hyaluronan, a naturally occurring polysaccharide that is widely distributed in the extracellular matrix of connective tissues in both animals and humans for medical use in the ophthalmic, orthopedic and veterinary markets. The Technology Licensing segment licenses Landec's patented Intellicoat seed coatings to the farming industry and licenses the Company's Intelimer polymers for personal care products and other industrial products. Corporate includes corporate general and administrative expenses, non Food Products Technology interest income and Company-wide income tax expenses. All of the assets of the Company are located within the United States of America. The Company's international sales are primarily to Europe, Canada, Taiwan, Indonesia, China and Japan. Operations and identifiable assets by business segment consisted of the following (in thousands):

| Three Months Ended November 28, 2010 | Food Products Technology | Export | HA-based Biomaterials | Technology Licensing | Corporate | TOTAL |
|---|---|---|---|---|---|---|
| Net sales | $ 40,649 | $ 19,635 | $ 8,422 | $ 1,462 | $ — | $ 70,168 |
| International sales | $ 4,166 | $ 19,571 | $ 6,325 | $ ¾ | $ ¾ | $ 30,062 |
| Gross profit | $ 3,752 | $ 1,230 | $ 5,411 | $ 1,462 | $ — | $ 11,855 |
| Net income (loss) | $ 853 | $ 607 | $ 2,841 | $ 544 | $ (2,790) | $ 2,055 |
| Depreciation and amortization | $ 777 | $ 2 | $ 478 | $ 38 | $ — | $ 1,295 |
| Interest income | $ 45 | $ — | $ 36 | $ — | $ 36 | $ 117 |
| Interest expense | $ — | $ — | $ 209 | $ — | $ — | $ 209 |
| Income tax expense | $ — | $ — | $ — | $ — | $ 1,209 | $ 1,209 |
| | | | | | | |
| Three Months Ended November 29, 2009 | | | | | | |
| Net sales | $ 42,326 | $ 17,074 | $ | $ 1,533 | $ — | $ 60,933 |
| International sales | $ 3,571 | $ 16,480 | $ | $ ¾ | $ ¾ | $ 20,051 |
| Gross profit | $ 4,755 | $ 1,129 | $ | $ 1,533 | $ — | $ 7,417 |
| Net income (loss) | $ 1,983 | $ 479 | $ | $ 898 | $ (1,826) | $ 1,534 |
| Depreciation and amortization | $ 735 | $ 4 | $ | $ 40 | $ — | $ 779 |
| Interest income | $ 63 | $ — | $ | $ — | $ 203 | $ 266 |
| Interest expense | $ 4 | $ — | $ | $ — | $ — | $ 4 |
| Income tax expense | $ — | $ — | $ | $ — | $ 895 | $ 895 |
| | | | | | | |
| Six Months Ended November 28, 2010 | | | | | | |
| Net sales | $ 81,207 | $ 36,118 | $ 14,806 | $ 2,989 | $ — | $ 135,120 |
| International sales | $ 8,771 | $ 36,017 | $ 10,758 | $ ¾ | $ ¾ | $ 55,546 |
| Gross profit | $ 10,115 | $ 2,161 | $ 8,406 | $ 2,989 | $ — | $ 23,671 |
| Net income (loss) | $ 4,456 | $ 984 | $ 3,535 | $ 1,116 | $ (5,732) | $ 4,359 |
| Depreciation and amortization | $ 1,561 | $ 4 | $ 962 | $ 75 | $ — | $ 2,602 |
| Interest income | $ 74 | $ — | $ 62 | $ — | $ 88 | $ 224 |
| Interest expense | $ 2 | $ — | $ 433 | $ — | $ — | $ 435 |
| Income tax expense | $ — | $ — | | $ — | $ 2,561 | $ 2,561 |
| | | | | | | |
| Six Months Ended November 29, 2009 | | | | | | |
| Net sales | $ 84,181 | $ 34,776 | $ | $ 2,918 | $ — | $ 121,875 |
| International sales | $ 7,007 | $ 32,431 | $ | $ ¾ | | |