LANDEC CORP \CA\
Form 10-K
August 09, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended May 27, 2018, or

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

For the Transition period for _____ to _____.

Commission file number: **0-27446**

LANDEC CORPORATION

(Exact name of registrant as specified in its charter)

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

5201 Great America Pkwy Suite 232

Santa Clara, California 95054

(Address of principal executive offices)

Registrant's telephone number, including area code:

(650) 306-1650

Securities registered pursuant to Section 12(b) of the Act:

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

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

None

(Title of Class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes _X_ 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, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ___	Accelerated Filer _X_	Emerging Growth Company ___
Non Accelerated Filer ___	Smaller Reporting Company ___	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ___

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $294,832,000 as of November 26, 2017, the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sales price on The NASDAQ Global Select Market reported for such date. Shares of Common Stock held by each officer and director and by each person who owns 10% or more of the outstanding Common Stock have been excluded from such calculation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of July 27, 2018, there were 27,735,798 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its October 2018 Annual Meeting of Stockholders which statement will be filed not later than 120 days after the end of the fiscal year covered by this report, are incorporated by reference in Part III hereof.

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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,” “assumes” and similar expressions are used to identify forward-looking statements. These statements are made based upon current expectations and projections about our business and assumptions made by our management and are not guarantees of future performance, nor do we assume any obligation to update such forward-looking statements after the date this report is filed. Our actual results could differ materially from those projected in the forward-looking statements for many reasons, including the risk factors listed in Item 1A. “Risk Factors” and the factors discussed below.

Corporate Overview

Landec Corporation and its subsidiaries (“Landec” or the “Company”) design, develop, manufacture and sell differentiated health and wellness products for food and biomaterials markets. There continues to be a dramatic shift in consumer behavior to healthier eating habits and preventive wellness to improve quality of life. In our Apio, Inc. (“Apio”) Packaged Fresh Vegetable business, we are committed to offering healthy, fresh produce products conveniently packaged to consumers. In our Lifecore Biomedical, Inc. (“Lifecore”) Biomaterials business, we develop and commercialize products with our partners that improve the health of people of all ages. In our new O Olive & Vinegar (“*O*”) business acquired on March 1, 2017, we sell premium California-sourced specialty olive oils and wine vinegar products.

Landec’s Packaged Fresh Vegetables and Biomaterials businesses utilize polymer chemistry technology, a key differentiating factor. Both businesses focus on business-to-business markets such as selling directly to retail grocery store chains and club stores for Apio and directly to partners in the medical device and pharmaceutical markets for Lifecore.

With the discontinuation of the Food Export business in the fourth quarter of fiscal 2018, Landec now has two operating segments – Packaged Fresh Vegetables and Biomaterials, both of which are described below. The results of *O* are included in the Other segment because it was not significant to Landec’s overall results during fiscal year 2018. Financial information concerning each of these segments for fiscal years 2018, 2017, and 2016 is summarized in Note 11 – Business Segment Reporting.

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

Description of Business Segments

In this Description of Business Segments section, “Apio” and the “Packaged Fresh Vegetables business” will be used interchangeably. The Company decided to discontinue its Food Export segment during the fourth quarter of fiscal year 2018 in order to focus on its higher margin, differentiated Packaged Fresh Vegetables products. As a result, the operating results for the Food Export business are presented as a discontinued operations in the Company’s accompanying Consolidated Financial Statements and the financial results for fiscal years 2017 and 2016 have been reclassified to present the Food Export business as a discontinued operation.

A) Packaged Fresh Vegetables Business

Apio operates the Packaged Fresh Vegetables business, which combines our proprietary BreatheWay® food packaging technology with the capabilities of a large national food supplier and value-added produce processor which sells products under the Eat Smart® brand to consumers and the GreenLine® brand to foodservice operators, as well as under private labels. In Apio’s Packaged Fresh Vegetables operations, produce is processed by trimming, washing, sorting, blending, and packaging into bags and trays that in most cases incorporate Landec’s BreatheWay membrane technology. The BreatheWay membrane increases shelf-life and reduces shrink (waste) for retailers and helps to ensure that consumers receive fresh produce by the time the product makes its way through the distribution chain. Apio also generates revenue from the sale and/or use of its BreatheWay technology by partners such as Chiquita Brands International, Inc. (“Chiquita”) for packaging and distribution of bananas and berries and Windset Holding 2010 Ltd., a Canadian corporation (“Windset”), for packaging of greenhouse-grown cucumbers and peppers.

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The Packaged Fresh Vegetables business had revenues of $455 million for the fiscal year ended May 27, 2018, $408 million for the fiscal year ended May 28, 2017, and $424 million for the fiscal year ended May 29, 2016.

Based in Guadalupe, California, Apio's primary business is fresh-cut and whole vegetable products typically packaged in our proprietary BreatheWay packaging. Apio's Packaged Fresh Vegetables business markets a variety of fresh-cut and whole vegetables and salad kit products to retail grocery chains, club stores and food service operators. During the fiscal year ended May 27, 2018, Apio shipped approximately 28 million cartons of produce to its customers throughout North America, primarily in the United States.

Most vegetable products packaged in our BreatheWay packaging have an approximately 17-day shelf-life. In addition to packaging innovation, Apio has developed innovative blends and combinations of vegetables that are sold in flexible film bags or rigid trays. More recently, Apio has launched a family of salad kits, salad blends and single serve salads that are comprised of "superfood" mixtures of vegetables with healthy toppings and dressings. The first salad kit to launch under our Eat Smart brand was Sweet Kale Salad, which now has wide distribution throughout club and retail stores in North America. Overall, we are currently selling under our Eat Smart brand 12 salad kits, 5 salad blends and 9 single serve salads. The Company's expertise includes accessing leading culinary experts and nutritionists nationally to help in the new product development process. We believe that our new products are "on trend" and strong market acceptance supports this belief. Recent statistics show that more than two-thirds of adults are considered to be overweight or obese and more than one-third of adults are considered to be obese. More and more consumers are beginning to make better food choices in their schools, homes and in restaurants and that is where our superfood products can fit into consumers' daily healthy food choices.

In addition to proprietary packaging technology and a strong new product development pipeline, the Company has strong channels of distribution throughout North America with retail grocery store chains and club stores. Landec has one or more of its products in approximately 55% of all retail and club store sites in North America giving us a strong platform for introducing new products. The Company believes it will have growth opportunities for the next several years through new customers, the introduction of innovative products and expansion of its existing customer relationships.

The Company sells its products under its nationally-known Eat Smart brand to retail and club stores and its GreenLine brand to foodservice operators. The Company also periodically licenses its BreatheWay packaging technology to partners. These packaging license relationships generate revenues either from product sales or royalties once commercialized. The Company is engaged in the testing and development of other fruits and vegetables that can benefit from the Company's BreatheWay technology. Landec manufactures its BreatheWay packaging through selected qualified contract manufacturers.

Apio Business Model

There are four major distinguishing characteristics of Apio that provide competitive advantages in the Packaged Fresh Vegetables market:

Packaged Vegetables Supplier: Apio has structured its business as a marketer and seller of branded and private label blended, fresh-cut and whole vegetable products. It is focused on selling products primarily under its Eat Smart brand, with some sales under its GreenLine brand and private label brands. As retail grocery chains, club stores and food service operators consolidate, Apio is well positioned as a single source of a broad range of products.

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Nationwide Processing and Distribution: Apio has strategically invested in its Packaged Fresh Vegetables business. Apio's largest processing plant is in Guadalupe, CA, and is automated with state-of-the-art vegetable processing equipment in one of the lowest cost, growing regions in California, the Santa Maria Valley. With the acquisition of GreenLine in 2012, Apio added three East Coast processing facilities and five East Coast distribution centers for nationwide delivery of all of its packaged vegetable products in order to meet the next-day delivery needs of customers.

Expanded Product Line Using Technology and Unique Blends: Apio is introducing new packaged vegetable products each year, and many of these products use our BreatheWay packaging technology to extend shelf-life. These new product offerings range from various sizes of fresh-cut bagged products, to vegetable trays, to whole produce, to vegetable salads and to snack packs. During fiscal year 2018, Apio introduced fifteen new unique products.

Products Currently in Approximately 55% of North American Retail Grocery Stores: Apio has products in approximately 55% of all North American retail grocery stores. This gives Apio the opportunity to sell new products to existing customers and to increase distribution of its approximately 120 unique products within those customers.

Windset

The Company believes that hydroponically-grown produce using Windset's know-how and growing practices will result in higher yields with competitive growing costs that will provide dependable year-round supply to Windset's customers. See Note 3 – Investment in Non-public Company for further information regarding the Company's investment in Windset. In addition, the produce grown in Windset's greenhouses uses significantly less water than field grown crops. Windset owns and operates greenhouses in British Columbia, Canada and California. In addition to growing produce in its own greenhouses, Windset has numerous marketing arrangements with other greenhouse growers and utilizes buy/sell arrangements to meet fluctuation in demand from their customers.

B) Biomaterials Business

Lifecore operates our Biomaterials business and is involved in the development and manufacture of pharmaceutical-grade sodium hyaluronate ("HA") products and providing contract development and aseptic manufacturing services. Sodium hyaluronate is a naturally occurring polysaccharide that is widely distributed in the extracellular matrix in animals and humans. Based upon Lifecore's expertise working with highly viscous HA, the Company specializes in fermentation and aseptic formulation, filling, and packaging services, as a contract development and manufacturing organization ("CDMO"), for difficult to handle (viscous) medicines filled in finished dose vials and syringes.

Our Biomaterials business operates through our Lifecore subsidiary. Lifecore had revenues of $65 million for the fiscal year ended May 27, 2018, $59 million for the fiscal year ended May 28, 2017, and $50 million for the fiscal year ended May 29, 2016.

Lifecore is involved in the manufacture of pharmaceutical-grade sodium hyaluronate in bulk form as well as formulated and filled syringes and vials for injectable products used in treating a broad spectrum of medical conditions and procedures. Lifecore leverages its fermentation process to manufacture premium, pharmaceutical-grade HA and uses its aseptic filling capabilities to deliver private-label HA and non-HA finished products to its customers. There is now a greater percentage of Americans age 65 and older than at any other time in U.S. history and currently over 50 million Americans are 65 years of age or older and this trend is expected to accelerate dramatically in the upcoming years. As our population ages, eye surgeries, such as cataract surgeries, will increase, and other patients will increasingly seek joint therapy as cartilage and soft tissue deteriorates. HA injections are a primary course of treatment for such conditions and Lifecore has built a leadership position in the markets it serves. The World Health Organization estimates that by 2020, 32 million cataract operations will be performed worldwide, up from 12 million in 2000. Lifecore’s expertise includes its ability to ferment, separate, purify, and aseptically formulate and fill HA and other polymers for injectable product use. There are several markets Lifecore serves including ophthalmic, orthopedic, oncology, general surgery, ENT, respiratory and general drug delivery. Lifecore sells its products through partners in the U.S., Europe, Asia, Australia, Canada and South America. Lifecore has built its reputation as a premium supplier of HA and more recently as a specialty CDMO.

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Lifecore provides product development services to its partners for HA-based, as well as non-HA based, aseptically formulated and filled products. These services include activities such as technology transfer, material component changes, analytical method development, formulation development, pilot studies, stability studies, process validation, and production of materials for clinical studies.

By leveraging its fermentation process and aseptic formulation and filling expertise, Lifecore has become a leader in the supply of HA-based products for multiple applications, and has taken advantage of non-HA device and drug opportunities by leveraging its expertise in development, manufacturing and aseptic syringe and vial filling capabilities. Elements of Lifecore's strategy include the following:

- *Establish strategic relationships with market leaders.* Lifecore will continue to develop applications for products with partners who have strong marketing, sales and distribution capabilities to end-user markets. Through its strong reputation and history of providing pharmaceutical grade HA products, Lifecore has been able to establish long-term relationships with the market leading pharmaceutical and medical device companies, and leverages those partnerships to attract new relationships in other medical markets.

- *Expand medical applications for HA*. Due to the growing knowledge of the unique characteristics of HA, and the role it plays in normal physiology, Lifecore continues to identify and pursue opportunities for the use of HA in other medical applications, such as wound care, aesthetic surgery, drug delivery, next generation orthopedics and device coatings and through sales to academic and corporate research customers. Further applications may involve expanding process development activity and/or additional licensing of technology.

- *Utilize manufacturing infrastructure to pursue contract aseptic filling and fermentation opportunities.* Lifecore has made strategic capital investments in its CDMO business focusing on extending its aseptic filling capacity and capabilities. It is investing in this segment to meet increasing partner demand and attract new contract filling opportunities outside of HA markets. Lifecore is using its manufacturing capabilities to provide contract manufacturing and development services to its partners in the area of sterile pre-filled syringes and vials, as well as, fermentation and purification requirements.

- *Maintain flexibility in product development and supply relationships.* Lifecore's vertically integrated development and manufacturing capabilities allow it to establish a variety of contractual relationships with global corporate partners. Lifecore's role in these relationships extends from supplying HA raw materials to providing technology transfer and development services to manufacturing aseptically filled, finished sterile products and assuming full supply chain responsibilities.

***C) Othe*r**

Included in the Other business segment is Corporate and *O*. The Company acquired *O* on March 1, 2017. *O*, founded in 1995, is based in Petaluma, California, and is the premier producer of California specialty olive oils and wine vinegars. Its products are sold in over 4,000 natural food, conventional grocery and mass retail stores, primarily in the United States and Canada. *O* had revenues of $3.8 million for the twelve months ended May 27, 2018 and $773,000 from the acquisition date through May 28, 2017.

Technology Overview

The Company has two proprietary polymer technology platforms: (1) Intelimer® materials, which are the key technology behind our BreatheWay membrane technology, and (2) hyaluronan biopolymers. The Company's materials are generally proprietary as a result of being patented or due to being specially formulated for specific customers to meet specific commercial applications and/or specific regulatory requirements. The Company's polymer technologies, customer relationships, trade names and strong channels of distribution are the foundation and key differentiating advantages on which Landec has built its business.

A) Intelimer Polymers

Intelimer polymers are crystalline, hydrophobic polymers that use a temperature switch to control and modulate properties such as viscosity, permeability and adhesion when varying the materials' temperature above and below the temperature switch. The sharp temperature switch is adjustable at relatively low temperatures (0°C to 100°C) and the changes resulting from the temperature switch are relatively easy to maintain in industrial and commercial environments. 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.

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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 can be repeatedly reversible. Landec can set the polymer switch temperature anywhere between 0°C to 100°C by varying the average length of the side chains.

Landec's Intelimer materials are readily available and 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. Intelimer polymers are the coatings on the substrate used to form our BreatheWay membranes.

BreatheWay Membrane Packaging

Certain types of fresh-cut and whole produce can spoil or discolor rapidly when packaged in conventional packaging materials and, therefore, are limited in their ability to be distributed broadly to markets. The Company’s proprietary BreatheWay packaging technology utilizes Landec’s Intelimer polymer technology to naturally extend the shelf-life and quality of fresh-cut and whole 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. The respiration rate of produce varies for each fruit and vegetable. 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 packaged produce. To achieve optimal product performance, each fruit or vegetable requires its own unique package atmosphere conditions. The challenge facing the industry is to develop packaging that meets the highly variable needs that each product requires in order to achieve value-creating performance. The Company believes that its BreatheWay packaging technology possesses all of the critical functionalities required to serve this diverse market. In creating a product package, a BreatheWay membrane is applied over a small cutout section or an aperture of a flexible film bag or plastic tray. This highly permeable “window” acts as the mechanism to provide the majority of the gas transmission requirements for the entire package. These membranes are designed to provide three principal benefits:

High Permeability. Landec's BreatheWay packaging technology is designed to permit transmission of oxygen and carbon dioxide at 300 to 1,000 times the rate of conventional packaging films. The Company believes that these

higher permeability levels will facilitate the packaging diversity required to market many types of fresh-cut and whole produce in many package sizes and configurations.

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

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

B) Sodium Hyaluronate (HA)

Sodium hyaluronate is a non-crystalline, hydrophilic polymer that exists naturally as part of the extracellular matrix in many tissues within the human body, most notably within the aqueous humor of the eye, synovial fluid, skin and umbilical cord. The viscoelastic properties and water solubility of HA make it ideal for medical applications where space maintenance, lubricity, drug delivery or tissue protection are critical. Because of its widespread presence in tissues, its critical role in normal physiology, and its high degree of biocompatibility, the Company believes that hyaluronan will continue to be used in existing applications and for an increasing variety of other medical applications.

Sodium hyaluronate can primarily be produced in two ways, either through bacterial fermentation or through extraction from rooster combs. Lifecore produces HA only from fermentation, using an extremely efficient microbial fermentation process and a highly effective purification operation.

Sodium hyaluronate was first demonstrated to have commercial medical utility as a viscoelastic solution in cataract surgery. In this application, it is used for maintaining the space in the anterior chamber and protecting corneal tissue during the removal and implantation of intraocular lenses. The first ophthalmic HA product, produced by extraction from rooster comb tissue, became commercially available in the United States in 1981. In 1985, Lifecore introduced the bacterial fermentation process to manufacture premium HA and received patent protection until 2002. HA-based products, produced either by rooster comb extraction or by fermentation processes such as Lifecore's, have since gained widespread acceptance in ophthalmology and are currently used in the majority of cataract extraction procedures in the world. HA has also become a significant component in several products used in orthopedics. Lifecore's HA is used as a viscous carrier for allogeneic freeze-dried demineralized bone used in spinal surgery, and as the active component of devices to treat the symptoms of osteoarthritis, and as a component to provide increased lubricity to medical devices. Lifecore's HA has also been utilized in veterinary drug applications to treat traumatic arthritis.

Trademarks and Trade names

Intelimer®, Landec®, Apio™, Eat Smart®, BreatheWay®, GreenLine®, Clearly Fresh™, Lifecore®, LUROCOAT®, Ortholure™ and O Olive & Vinegar® are some of the trademarks or registered trademarks and trade names of the Company in the United States and other countries. This Annual Report on Form 10-K also refers to the trademarks of other companies.

Sales and Marketing

Apio is supported by dedicated sales and marketing resources. Apio has 46 sales and marketing employees, located in central California and throughout the U.S. and Canada, supporting the Packaged Fresh Vegetables business. During fiscal years 2018, 2017, and 2016, sales to the Company's top five customers accounted for approximately 49%, 48%, and 50%, respectively, of its revenues. The Company's top two customers, both from the Packaged Fresh Vegetables segment, were Costco Wholesale Corporation ("Costco") which accounted for approximately 19%, 20%, and 23%, respectively, and Wal-mart, Inc. ("Wal-mart") which accounted for approximately 18%, 16%, and 14%, respectively, of the Company's revenues. A loss of either of these customers would have a material adverse effect on the Company's business.

Lifecore sells products to partners under supply agreements and also through distribution agreements. Excluding research sales, Lifecore does not sell to end users and, therefore, does not have the traditional infrastructure of a dedicated sales force and marketing employees. It is Lifecore's name recognition and referrals that allow Lifecore it to attract new customers and offer its services with a minimal marketing and sales infrastructure.

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Seasonality

Apio's sales are seasonal. The Packaged Fresh Vegetables business can be affected by seasonal weather factors, such as the high cost of sourcing product due to a shortage of essential produce items, which had a significant impact on the Company's results during fiscal years 2018, 2017 and 2016. The Biomaterials business is not significantly affected by seasonality.

Manufacturing and Processing

Packaged Fresh Vegetables Business

The manufacturing process for the Company's proprietary BreatheWay packaging products is comprised of polymer manufacturing, membrane manufacturing and label package conversion. A third-party toll manufacturer currently makes virtually all of the polymers for the BreatheWay packaging system. Select outside contractors currently manufacture the breathable membranes, and Apio performs the label package conversion in its various processing facilities.

Apio processes its packaged fresh vegetable products in its processing facilities located in Guadalupe, California, Bowling Green, Ohio and Hanover, Pennsylvania. Cooling of produce is done through third parties and its own in-house cooling via its various cooling systems.

Apio processes its fresh-cut, packaged green bean products in four processing plants located in Guadalupe, California; Bowling Green, Ohio; Hanover, Pennsylvania; and Vero Beach, Florida.

Biomaterials Business

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

Lifecore produces its HA through a bacterial fermentation process. Pharmaceutical grade HA was initially commercially available only through an extraction process from rooster combs. Lifecore believes that the fermentation manufacturing approach is superior to rooster comb extraction because of negativity surrounding animal-sourced materials, greater efficiency and flexibility, a more favorable long-term regulatory environment, and better economies of scale in producing large commercial quantities. Today's HA competitors are primarily utilizing a fermentation process.

Lifecore's facilities in Chaska, Minnesota are used primarily for the HA manufacturing process, formulation, aseptic syringe and vial filling, analytical services, secondary packaging, warehousing raw materials and finished goods, and distribution. The Company believes that its current manufacturing capacity plan will be sufficient to allow it to meet the needs of its current customers for the foreseeable future.

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

The Food and Drug Administration ("FDA") inspects the Company's facilities and manufacturing systems periodically and requires compliance with the FDA's Quality System Regulation ("QSR") and its current Good Manufacturing Practices ("cGMP") regulations, as applicable. In addition, Lifecore's customers conduct intensive quality audits of the facility and its operations. Lifecore also periodically contracts with independent regulatory consultants to conduct audits of its operations. Similar to other manufacturers subject to regulatory and customer specific requirements, Lifecore's facility was designed to meet applicable regulatory requirements and has been cleared for the manufacturing of both device and pharmaceutical products. The Company maintains a Quality System which complies with applicable standards and regulations: FDA Medical Device Quality System requirements (21 CFR 820); FDA Drug Good Manufacturing Practices (21 CFR 210-211); European Union Good Manufacturing Practices (EudraLex Volume 4); Medical Device Quality Management System (ISO 13485); European Medical Device Directive; Canadian Medical Device Regulations; International Guide for Active Pharmaceutical Ingredients (ICH Q7), and Australian Therapeutic Goods Regulations. Compliance with these international standards of quality greatly assists in the marketing of Lifecore's products globally.

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O Business

O uses third parties to crush, process and bottle its olive oil products. During the fourth quarter of fiscal year 2018, *O* moved the fermentation of vinegar in-house upon completing the installation of new vinegar fermentation equipment in its Petaluma facility. The first sales of vinegar produced by *O* began late in the fourth quarter of fiscal year 2018.

General

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

Research and Development

Landec is focusing its research and development resources on both existing and new product applications. Expenditures for research and development for the fiscal years ended May 27, 2018, May 28, 2017, and May 29, 2016 were $12.8 million, $9.5 million, and $7.2 million, respectively. The Company anticipates that it will continue to incur 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 27, 2018, Landec had 61 employees engaged in research and development with experience in polymer and analytical chemistry, product application, product formulation, and mechanical and chemical engineering.

Patents and Proprietary Rights

The Company's success depends in large part on its ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. The Company has had 50 U.S. patents issued of which 26 remain active as of May 27, 2018 with expiration dates ranging from 2018 to 2031. 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, 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. 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 its business, operating results and financial condition.

Government Regulation

Government regulation in the United States and other countries is a significant factor in the marketing of certain of the Company’s products and in the Company’s ongoing research and development activities and contract manufacturing activities. Under the Federal Food, Drug, and Cosmetic Act (“FDC Act”) the FDA regulates and/or approves the clinical trials, manufacturing, labeling, distribution, import, export sale and promotion of medical devices and drug products in or from the United States. Some of the Company’s and its customers’ products are subject to extensive and rigorous regulation by the FDA, which regulates some of the products as medical devices or drug products, that in some cases require FDA Approval or clearance, prior to U.S. distribution of Pre-Market Approval (“PMAs”), or New Drug Applications (“NDA”), or Pre-Market Notifications (“510(k)”s), or other submissions and by foreign countries, which regulate some of the products as medical devices or drug products.

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Other regulatory requirements are placed on the design, manufacture, processing, packaging, labeling, distribution, recordkeeping and reporting of a medical device or drug products and on the quality control procedures. For example, medical device and drug manufacturing facilities are subject to periodic inspections by the FDA to assure compliance with device QSR and/or drug GMP requirements, as applicable. The FDA also conducts pre-approval inspections for PMA and NDA product introduction. Lifecore's facility is subject to inspections as both a device and a drug manufacturing operation. For PMA devices and NDA drug products, the company that owns the product submission is required to submit an annual report and also to obtain approval, as applicable, for modifications to the device, drug product or its labeling. Other applicable FDA requirements include but are not limited to reporting requirements such as the medical device reporting ("MDR") regulation, which requires certain companies to provide information to the FDA regarding deaths or serious injuries alleged to have been associated with the use of its devices, as well as product malfunctions that would likely cause or contribute to death or serious injury if the malfunction were to recur.

The Company's food products and operations are also subject to regulation by various federal, state, and local agencies. Food products are regulated by the FDA under the FDC Act and the rules and regulations promulgated thereunder. The FDA has the authority to inspect the Company's food facilities, and regulates, among other things, food manufacturing (pursuant to food-related cGMPs), food packing and holding, food safety, the growing and harvesting of produce intended for human consumption, food labeling, and food packaging. The FDA is currently implementing the FDA Food Safety Modernization Act and has published a number of final rules related to, among other things, hazard analysis and preventive controls, produce safety, foreign supplier verification programs, sanitary transportation of food, and food defense. The compliance dates for these rules vary and started as early as September, 2016. The FDA also requires companies to report to the FDA via the Reportable Food Registry when there is a reasonable probability that the use of, or exposure to, an article of food will cause serious adverse health consequences or death to humans or animals. In addition, the Federal Trade Commission ("FTC") and other state authorities regulate how the Company may promote and advertise its food products.

Employees

As of May 27, 2018, Landec had 710 full-time employees, of whom 568 were dedicated to research, development, manufacturing, quality control and regulatory affairs, and 142 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 are represented by a union, and Landec considers its relationship with its employees to be good.

Available Information

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

Item 1A. ***Risk Factors***

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

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

Our Packaged Fresh Vegetables business is subject to weather conditions that affect commodity prices, crop quality and yields, and crop varieties to be planted. Crop diseases and severe conditions, particularly weather conditions such as unexpected or excessive rain or other precipitation, unseasonable temperature fluctuations, 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. The Company experienced significant product sourcing issues in fiscal years 2018, 2017 and 2016 as a result of severe adverse weather conditions that materially adversely affected the Company's financial results. Because a significant portion of the costs are fixed and contracted in advance of each operating year, volume declines reflecting production interruptions or other factors could result in increases in unit production costs which could result in substantial losses and weaken our financial condition.

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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. Apio can be affected by seasonal and weather-related factors which have impacted our financial results in the past due to shortages of essential value-added produce items. In addition, the fair market value change in our Windset investment can fluctuate substantially quarter to quarter. Lifecore can be affected by the timing of orders from its relatively small customer base and the timing of the shipment of those orders. Our earnings may also fluctuate based on our ability to collect accounts receivable from customers and notes receivable from growers and on price fluctuations in the fresh vegetable and fruit markets. Other factors that affect our operations include:

our ability and our growers' ability to obtain an adequate supply of labor,

our growers' ability to obtain an adequate supply of water,

the seasonality and availability and quantity 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 and timing 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 depends in part on our ability and that of 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, including customer preferences and trends, 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,

regulatory approvals,

marketing and sales efforts, and

general economic conditions affecting purchasing patterns.

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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 and our partners/customers are in the early stage of product commercialization of certain Intelimer-based specialty packaging, and HA-based products and non-HA products and new oil and vinegar products. We expect that our future growth will depend in large part on our and our partners'/customers' 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 companies will depend substantially on developing, commercializing, achieving market acceptance of and reducing the cost of producing our products. In addition, commercial applications of some 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 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 undocumented workers 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. In addition, several recent decisions by the United States NLRB have found companies, such as Apio, which use contract employees could be found to be "joint employers" with the staffing firm. During fiscal year 2017, the Company settled a lawsuit in which it and Apio's labor contractor were named in several civil actions and administrative actions involving claims filed by current and past employees of Apio's labor contractor.

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

We Depend on Our Infrastructure to Have Sufficient Capacity to Handle Our On-Going Production Needs

We have an infrastructure that has sufficient capacity for our on-going production needs, but if our machinery or facilities are damaged or impaired due to natural disasters or mechanical failure, we may not be able to operate at a sufficient capacity to meet our production needs. This could have a material adverse effect on our business, which could impact our results of operations and our financial condition.

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

Any disruptions in our primary manufacturing operations at Apio's facilities in Guadalupe, CA, Bowling Green, OH or Hanover, PA or Lifecore's facilities in Chaska, MN would reduce our ability to sell our products and would have a material adverse effect on our financial results. Additionally, we may need to consider seeking collaborative arrangements with other companies to manufacture our products. If we become dependent upon third parties for the manufacture of our products, our profit margins and our ability to develop and deliver those products on a timely basis may be adversely affected. In that event, additional regulatory inspections or approvals may be required, and additional quality control measures would need to be implemented. 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.

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

The success of our business depends to a significant extent on 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 for an extended period may cause hardship for our business. In addition, competition for senior level personnel with knowledge and experience in our different lines of business is intense. If any of our key personnel were to leave, we would need to devote substantial resources and management attention to replace them. As a result, management attention may be diverted from managing our business, and we may need to pay higher compensation to replace these employees.

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Any New Business Acquisition Will Involve Uncertainty Relating to Integration

We acquired *O* in March 2017 and have acquired other businesses in the past and may make additional acquisitions in the future. The successful integration of new business acquisitions may require substantial effort from the Company's management. The diversion of the attention of management and any difficulties encountered in the transition process could have a material adverse effect on the Company's ability to realize the anticipated benefits of the acquisitions. The successful combination of new businesses also requires coordination of research and development activities, manufacturing, sales and marketing efforts. In addition, the process of combining organizations located in different geographic regions could cause the interruption of, or a loss of momentum in, the Company's activities. There can be no assurance that the Company will be able to retain key management, technical, sales and customer support personnel, or that the Company will realize the anticipated benefits of any acquisitions, and the failure to do so would have a material adverse effect on the Company's business, results of operations and financial condition.

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

Our Operations Are Subject to Regulations that Directly Impact Our Business

Our products and operations are subject to governmental regulation in the United States and foreign countries. The manufacture of our products is subject to detailed standards for product development, manufacturing controls, ongoing quality monitoring and analysis, and 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. A significant portion of Apio’s manufacturing workforce is provided by third-party labor contractors. The Company relies upon these contractors to validate the worker’s immigration status and their eligibility to work in the Company’s facilities, and failure of these contractors’ control processes or our internal control processes could result in Apio not complying with applicable regulations. 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.

Our food operations are subject to regulation by the FDA, FTC, and other governmental entities. Applicable laws and regulations are subject to change from time to time and could impact how we manage the production and sale of our food products. We are subject, for example, to FDA compliance 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 or registrations,

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

operating restrictions, and

criminal prosecution.

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Compliance with federal, state, and local laws and regulations is costly and time-consuming. We may be required to incur significant costs to comply with the laws and regulations in the future which may have a material adverse effect on our business, operating results and financial condition.

Our food packaging products are subject to regulation under the 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. Food packaging materials are generally not considered food additives by the FDA if the 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 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 contact substance notification or food additive petition for approval by the FDA. The food additive petition process, in particular, is lengthy, expensive and uncertain. A determination by the FDA that a food contact substance notification or food additive petition is necessary would have a material adverse effect on our business, operating results and financial condition.

Our Packaged Fresh Vegetables business is subject to the Perishable Agricultural Commodities Act (“PACA”). 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. In addition, the FTC and other state authorities regulate how we promote and advertise our food products, and we could be the target of claims relating to alleged false or deceptive advertising under federal, state, and local laws and regulations.

Lifecore’s existing products and its products under development are considered to be medical devices, drug products, or combination products, and therefore, require clearance or approval by the FDA before commercial sales can be made in the United States. The products also require the approval of foreign government agencies before sales may be made in many other countries. The process of obtaining these clearances or approvals varies according to the nature and use of the product. It can involve lengthy and detailed safety and efficacy data, including clinical studies, as well as extensive site inspections and lengthy regulatory agency reviews. There can be no assurance that any of the Company’s clinical studies will be authorized to proceed, or if authorized will show safety or effectiveness; that any of the Company’s products that require FDA clearance or approval will obtain such clearance or approval on a timely basis, on terms acceptable to the Company for the purpose of actually marketing the products, or at all; or that following any such clearance or approval previously unknown problems will not result in restrictions on the marketing of the products or withdrawal of clearance or approval.

In addition, most of the existing products being sold by Lifecore and its customers are subject to continued regulation by the FDA, various state agencies and foreign regulatory agencies, which regulate the design, manufacturing, labeling, distribution, post-marketing product modifications, advertising, promotion, import, export and record keeping procedures for such products. Aseptic processing and shared equipment manufacturing require specific

quality controls. If we fail to achieve and maintain these controls, we may have to recall product, or may have to reduce or suspend production while we address any deficiencies. Marketing clearances or approvals by regulatory agencies can be withdrawn due to failure to comply with regulatory standards or the occurrence of unforeseen problems following initial clearance or approval. These agencies can also limit or prevent the manufacture or distribution of Lifecore's products. A determination that Lifecore is in violation of such regulations could lead to the issuance of adverse inspectional observations, a Warning Letter, imposition of civil penalties, including fines, product recalls or product seizures, preclusion of product export, a hold or delay in pending product approvals, injunctions against product manufacture and distribution, and, in extreme cases, criminal sanctions.

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

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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 such agreements. Moreover, some of the collaborative agreements provide that they may be terminated at the discretion of the corporate partner, and some of the collaborative agreements provide for termination under other circumstances. Our partners may pursue existing or alternative technologies in preference to our technology. Furthermore, we may not be able to negotiate additional collaborative arrangements in the future on acceptable terms, if at all, and our collaborative arrangements may not be successful.

Our Reputation and Business May Be Harmed if Our Computer Network Security or Any of the Databases Containing Our Trade Secrets, Proprietary Information or the Personal Information of Our Employees Are Compromised

Cyber-attacks or security breaches could compromise our confidential business information, cause a disruption in the Company’s operations or harm our reputation. We maintain numerous information assets, including intellectual property, trade secrets, banking information and other sensitive information critical to the operation and success of our business on computer networks, and such information may be compromised in the event that the security of such networks is breached. We also maintain confidential information regarding our employees and job applicants, including personal identification information. The protection of employee and company data in the information technology systems we utilize (including those maintained by third-party providers) is critical. Despite the efforts by us to secure computer networks utilized for our business, security could be compromised, confidential information, such as Company information assets and personally identifiable employee information, could be misappropriated or system disruptions could occur.

In addition, we may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyberattacks. Attacks may be targeted at us, our customers or others who have entrusted us with information. Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants. Advances in computer capabilities, new technological discoveries or other developments may result in the technology used by us to protect sensitive Company data being breached or compromised. Furthermore, actual or anticipated cyberattacks or data breaches may cause significant disruptions to our network operations, which may impact our ability to deliver shipments or respond to customer needs in a timely or efficient manner.

Data and security breaches could also occur as a result of non-technical issues, including an intentional or inadvertent breach by our employees or by persons with whom we have commercial relationships that result in the unauthorized release of confidential information related to our business or personal information of our employees. Any compromise or breach of our computer network security could result in a violation of applicable privacy and other laws, costly investigations and litigation and potential regulatory or other actions by governmental agencies. As a result of any of the foregoing, we could experience adverse publicity, the compromise of valuable information assets, loss of sales, the cost of remedial measures and/or significant expenditures to reimburse third parties for resulting damages, any of which could adversely impact our brand, our business and our results of operations.

We May Be Unable to Adequately Protect Our Intellectual Property Rights or May Infringe Intellectual Property Rights of Others

We may receive notices from third parties, including some of our competitors, claiming infringement by our products of their 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.

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The Global Economy is Experiencing Continued Volatility, Which May Have an Adverse Effect on Our Business

In recent years, the U.S. and international economy and financial markets have experienced significant volatility due to uncertainties related to the availability of credit, energy prices, difficulties in the banking and financial services sectors, diminished market liquidity, and geopolitical conflicts. Ongoing volatility in the economy and financial markets could further lead to reduced demand for our products, which in turn, would reduce our revenues and adversely affect our business, financial condition and results of operations. In particular, volatility in the global markets have resulted in softer demand and more conservative purchasing decisions by customers, including a tendency toward lower-priced products, which could negatively impact our revenues, gross margins and results of operations. In addition to a reduction in sales, our profitability may decrease because we may not be able to reduce costs at the same rate as our sales decline. We cannot predict the ultimate severity or length of the current period of volatility, or the timing or severity of future economic or industry downturns.

Given the current uncertain economic environment, our customers, suppliers and partners may have difficulties obtaining capital at adequate or historical levels to finance their ongoing business and operations, which could impair their ability to make timely payments to us. This may result in lower sales and/or inventory that may not be saleable or bad debt expense for Landec. A worsening of the economic environment or continued or increased volatility of the U.S. economy, including increased volatility in the credit markets, could adversely impact our customers' and vendors' ability or willingness to conduct business with us on the same terms or at the same levels as they have historically. Further, this economic volatility and uncertainty about future economic conditions makes it challenging for Landec to forecast its operating results, make business decisions, and identify the risks that may affect its business, sources and uses of cash, financial condition and results of operations.

Our International Sales May Expose Our Business to Additional Risks

For fiscal year 2018, approximately 20% of our consolidated net 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,

fluctuations in foreign currencies,

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 on our part 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 in 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 2018, sales to our top five customers accounted for approximately 49% of our revenues, with our two largest customers from our Packaged Fresh Vegetables segment, Costco and Wal-mart accounting for approximately 19% and 18%, 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 revenues. We may experience changes in the composition of our customer base as we have experienced in the past. The reduction, delay or cancellation of orders from one or more major customers for any reason or the loss of one or more of our major customers could materially and adversely affect our business, operating results and financial condition. In addition, since some of the products processed by Apio and Lifecore are sole sourced to customers, our operating results could be adversely affected if one or more of our major customers were to develop other sources of supply. Our current customers may not continue to place orders, orders by existing customers may be canceled or may not continue at the levels of previous periods or we may not be able to obtain orders from new customers.

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Our Sale of Some Products May Expose Us 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 are 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. Such events 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 consider to be 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 think 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 Response to Various Conditions, Many of Which Are Beyond Our Control

The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including the following:

weather-related produce sourcing issues,

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, interpretation, or enforcement 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.

Fluctuations in our quarterly results may, particularly if unforeseen, cause us to miss projections which might result in analysts or investors changing their valuation of our stock.

Lapses in Disclosure Controls and Procedures or Internal Control Over Financial Reporting Could Materially and Adversely Affect the Company's Operations, Profitability or Reputation

We are committed to maintaining high standards of internal control over financial reporting and disclosure controls and procedures. Nevertheless, lapses or deficiencies in disclosure controls and procedures or in our internal control over financial reporting may occur from time to time. There can be no assurance that our disclosure controls and procedures will be effective in preventing a material weakness or significant deficiency in internal control over financial reporting from occurring in the future. Any such lapses or deficiencies may materially and adversely affect our business and results of operations or financial condition, restrict our ability to access the capital markets, require us to expend resources to correct the lapses or deficiencies, which could include the restating of previously reported financial results, expose us to regulatory or legal proceedings, harm our reputation, or otherwise cause a decline in investor confidence.

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

The issuance of 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 dividends on our Common Stock since inception and do not expect to in the foreseeable future. Any dividends may be subject to preferential dividends payable on any preferred stock we may issue.

Item 1B. ***Unresolved Staff Comments***

None.

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Item 2. ***Properties***

As of May 27, 2018, the Company owned or leased properties in Santa Clara, Petaluma, Santa Maria, Ontario and Guadalupe, California; Chaska, Minnesota; Bowling Green and McClure, Ohio; Hanover, Pennsylvania; Vero Beach, Florida; Rock Hill, South Carolina and Rock Tavern, New York as described below.

Location	Business Segment	Ownership	Facilities	Acres of Land	Lease Expiration
Guadalupe, CA	Packaged Fresh Vegetables	Owned	199,000 square feet of office space, manufacturing and cold storage	25.2	—
Bowling Green, OH	Packaged Fresh Vegetables	Owned	55,900 square feet of office space, manufacturing and cold storage	7.7	—
Hanover, PA	Packaged Fresh Vegetables	Owned	64,000 square feet of office space, manufacturing and cold storage	15.3	—
Rock Hill, SC	Packaged Fresh Vegetables	Owned	16,400 square feet of cold storage and office space	3.6	—
Vero Beach, FL	Packaged Fresh Vegetables	Leased	9,200 square feet of office space, manufacturing and cold storage	—	12/31/20
Rock Tavern, NY	Packaged Fresh Vegetables	Leased	7,700 square feet of cold storage and office space	—	8/23/23
McClure, OH	Packaged Fresh Vegetables	Leased	Farm land	185	12/31/20
Guadalupe, CA	Packaged Fresh Vegetables	Leased	105,000 square feet of parking space	2.4	9/30/18
Guadalupe, CA	Packaged Fresh Vegetables	Leased	5,300 square feet of office space	—	Month-to-Month
Santa Maria, CA	Packaged Fresh Vegetables	Leased	36,300 square feet of office and laboratory space	—	3/31/30
Ontario, CA	Packaged Fresh Vegetables	Leased	54,300 square feet of office and manufacturing space	—	2/29/28
Chaska, MN	Biomaterials	Owned	147,300 square feet of office, laboratory and manufacturing space	27.5	—
Chaska, MN	Biomaterials	Leased	65,000 square feet of office, manufacturing and warehouse space	—	12/31/22
Santa Clara, CA	Other	Leased	3,657 square feet of office space	—	12/31/21
Petaluma, CA	Other	Leased	14,100 square feet of office, manufacturing and warehouse space	—	1/31/21

Item 3. ***Legal Proceedings***

In the ordinary course of business, the Company is involved in various legal proceedings and claims.

The Company makes a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least each fiscal quarter and adjusted to reflect the impacts of negotiations, estimate settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. Legal fees are expensed in the period in which they are incurred.

Apio has been the target of a union organizing campaign which has included three unsuccessful attempts to unionize Apio's Guadalupe, California processing plant. The campaign involved a union and over 100 former and current employees of Pacific Harvest, Inc. and Rancho Harvest, Inc. (collectively "Pacific Harvest"), Apio's labor contractors at its Guadalupe, California processing facility, bringing legal actions before various state and federal agencies, the California Superior Court, and initiating over 100 individual arbitrations against Apio and Pacific Harvest.

The legal actions consisted of three main types of claims: (1) Unfair Labor Practice claims ("ULPs") before the National Labor Relations Board (“NLRB”), (2) discrimination/wrongful termination claims before state and federal agencies and in individual arbitrations, and (3) wage and hour claims as part of two Private Attorney General Act (“PAGA”) cases in state court and in over 100 individual arbitrations.

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A settlement of the ULPs among the union, Apio, and Pacific Harvest that were pending before the NLRB was approved on December 27, 2016 for $310,000. Apio was responsible for half of this settlement, or $155,000. On May 5, 2017, the parties to the remaining actions executed a settlement agreement concerning the discrimination/wrongful termination claims and the wage and hour claims which covers all non-exempt employees of Pacific Harvest working at Apio's Guadalupe, California processing facility from September 2011 through the settlement date. Under the settlement agreement, the plaintiffs are to be paid $6.0 million in three installments: $2.4 million, which was paid on July 3, 2017, $1.8 million which was paid on November 22, 2017 and $1.8 million which was paid in July 2018. The Company and Pacific Harvest have each agreed to pay one half of the settlement payments. The Company paid the entire first two installments of $4.2 million and will be reimbursed by Pacific Harvest for its $2.1 million portion, of which $600,000 and $1.5 million is included in Prepaid and other current assets and Other assets, respectively, in the accompanying Consolidated Balance Sheets. This receivable will be repaid through monthly payments until fully paid, which the Company anticipates will occur by December 2020. The Company and Pacific Harvest each made their half of the third installment in July 2018. The Company’s recourse against non-payment by Pacific Harvest is its security interest in assets owned by Pacific Harvest.

During the twelve months ended May 27, 2018 and May 28, 2017, the Company incurred legal expenses of $639,000 and $2.1 million, respectively, related to these actions. During the twelve months ended May 28, 2017, the Company recorded a legal settlement charge of $2.6 million related to these actions. As of May 27, 2018, the Company had accrued $1.0 million related to these actions, which is included in Other accrued liabilities in the accompanying Consolidated Balance Sheets.

Item 4. ***Mine Safety Disclosures***

Not applicable.

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PART II

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

Market Information

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

Fiscal Year Ended May 27, 2018	High	Low
4th Quarter ended May 27, 2018	$14.55	$12.55
3rd Quarter ended February 25, 2018	$14.00	$11.60
2nd Quarter ended November 26, 2017	$13.65	$11.42
1st Quarter ended August 27, 2017	$14.95	$12.10

Fiscal Year Ended May 28, 2017	High	Low
4th Quarter ended May 28, 2017	$14.55	$11.20
3rd Quarter ended February 26, 2017	$15.50	$11.85
2nd Quarter ended November 27, 2016	$14.70	$12.06
1st Quarter ended August 28, 2016	$12.80	$9.85

Holders

There were approximately 47 holders of record of 27,735,798 shares of outstanding Common Stock as of July 27, 2018. Since certain holders are listed under their brokerage firm's names, the actual number of stockholders is higher.

Dividends

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

Issuer Purchases of Equity Securities

There were no shares repurchased by its Company during fiscal years 2018 or 2017. The Company may still repurchase up to $3.8 million of the Company's Common Stock under the Company's stock repurchase plan announced on July 14, 2010.

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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 the Notes to Consolidated Financial Statements contained in Item 8 of this report.

	Year Ended				
Statement of Income (Loss) Data: (In thousands, except per share amounts)	May 27, 2018	May 28, 2017 (1)	May 29, 2016 (1)	May 31, 2015 (1)	May 25, 2014 (1)
Product sales	$524,227	$469,776	$476,918	$471,420	$406,986
Cost of product sales	445,889	390,564	410,137	410,265	349,762
Gross profit	78,338	79,212	66,781	61,155	57,224
Operating costs and expenses:					
Research and development	12,800	9,473	7,228	6,988	7,204
Selling, general and administrative	51,951	52,491	46,181	36,795	31,806
Other operating expenses	—	2,580	34,000	—	—
Total operating costs and expenses	64,751	64,544	87,409	43,783	39,010
Operating income (loss)	13,587	14,668	(20,628)	17,372	18,214
Dividend income	1,650	1,650	1,650	1,417	1,125
Interest income	211	16	71	315	260
Interest expense, net	(1,950)	(1,826)	(1,987)	(1,829)	(1,650)
Loss on debt refinancing	—	(1,233)	—	—	—
Other income	2,900	900	1,200	3,107	10,000
Net income (loss) from continuing operations before taxes	16,398	14,175	(19,694)	20,382	27,949
Income tax benefit (expense)	9,363	(4,040)	7,704	(7,698)	(10,580)
Net income (loss) from continuing operations	25,761	10,135	(11,990)	12,684	17,369
Discontinued operations:					
(Loss) income from discontinued operations	(1,188)	837	842	1,089	1,976
Income tax benefit (expense)	350	(295)	(300)	(48)	(3)
(Loss) income from discontinued operations, net of tax	(838)	542	542	1,041	1,973
Net income (loss)	24,923	10,677	(11,448)	13,725	19,342
Non-controlling interest expense	(94)	(87)	(193)	(181)	(197)
Net income (loss) applicable to common stockholders	$24,829	$10,590	$(11,641)	$13,544	$19,145
Basic net income (loss) per share:					
Income (loss) from continuing operations	$0.93	$0.37	$(0.45)	$0.46	$0.65

(Loss) income from discontinued operations	(0.03)	0.02	0.02	0.04	0.07
Total basic net income (loss) per share	$0.90	$0.39	$(0.43)	$0.50	$0.72
Diluted net income (loss) per share:					
Income (loss) from continuing operations	$0.92	$0.36	(0.45)	0.46	0.64
(Loss) income from discontinued operations	(0.03)	0.02	0.02	0.04	0.07
Total diluted net income (loss) per share	$0.89	$0.38	$(0.43)	$0.50	$0.71
Shares used in per share computation:					
Basic	27,535	27,276	27,044	26,884	26,628
Diluted	27,915	27,652	27,044	27,336	27,120

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	Year Ended				
	May 27, 2018	May 28, 2017	May 29, 2016	May 31, 2015	May 25, 2014
Balance Sheet Data:		(1)	(1)	(1)	(1)
(in thousands)					
Cash and cash equivalents	$2,899	$5,998	$9,894	$14,127	$14,243
Total assets	404,703	358,608	342,653	346,465	313,623
Long-term debt, net	37,360	42,299	53,845	42,519	34,372
Retained earnings	109,299	84,470	73,457	85,098	71,554
Total stockholders' equity	$252,562	$226,609	$210,728	$218,432	$203,069

(1) During fourth quarter of fiscal year 2018, the Company made the decision to discontinue its Food Export business. As a result, the Company met the requirements of Accounting Standards Codifications ("ASC") 205-20, *Presentation of Financial Statements – Discontinued Operations* ("ASC 205-20"), to report the results of the Food Export segment as a discontinued operation and to classify the Food Export Segment as a group of assets held for abandonment. The operating results for the Food Export business have therefore been reclassified as a discontinued operation.

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

The Company has two operating segments – Packaged Fresh Vegetables and Biomaterials. Prior to May 2018, the Company aggregated its operating units into three reportable segments: Packaged Fresh Vegetables, Food Export and Biomaterials. However, during the fourth quarter of fiscal year 2018, the Company made the decision to discontinue its Food Export segment. The discontinuation met the requirements of ASC 205-20, and ASC 360, *Property, Plant and Equipment*, to report the results of the Food Export segment as a discontinued operation. The Packaged Fresh Vegetables segment combines the Company's BreatheWay packaging technology with Apio's branded Eat Smart and GreenLine and private label fresh-cut and whole produce business. The Biomaterials business sells products utilizing HA in the ophthalmic, orthopedic and oncology segments and also supplies HA to customers pursuing other medical applications, such as aesthetic surgery, medical device coatings, tissue engineering and pharmaceuticals. In addition, Lifecore provides specialized aseptic fill and finish services in a cGMP validated manufacturing facility for supplying

commercial, clinical and pre-clinical products. The results of the recently acquired *O* business are included in the Other segment because it was not significant to the Company's overall results. See "Business - Description of Business Segments."

As of May 27, 2018, the Company's retained earnings were $109.3 million. The Company may incur losses in the future. The amount of future net profits, if any, is uncertain and there can be no assurance that the Company will be able to sustain profitability in future years.

Critical Accounting Policies and Use of Estimates

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make certain estimates and judgments that affect the amounts reported in the financial statements and accompanying notes to the Consolidated Financial Statements. The accounting estimates that require management's most significant and subjective judgments include revenue recognition; loss contingencies, sales returns and allowances; self-insurance liabilities; recognition and measurement of current and deferred income tax assets and liabilities; the assessment of recoverability of long-lived assets including intangible assets and inventory; the valuation of investments; the valuation and recognition of stock-based compensation; and the valuation and recognition of contingent liabilities.

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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.

Revenue Recognition

See Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies for a discussion of the types of revenue earned at each segment. See Note 11 – Business Segment Reporting, for a discussion about the Company's three business segments; namely, Packaged Fresh Vegetables and Biomaterials, and its Other segment.

Goodwill and Other Intangibles

The Company's intangible assets are comprised of customer relationships with a finite estimated useful life of eleven to thirteen 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 *O* in March 2017 (ii) upon the acquisition of GreenLine by Apio in April 2012, (iii) upon the acquisition of Lifecore in April 2010, and (iv) upon the acquisition of Apio in December 1999. 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 acquisition of Lifecore was allocated to our Biomaterials reporting unit, the acquisitions of Apio and GreenLine were allocated to our Packaged Fresh Vegetables reporting unit, and the acquisition of *O* was allocated to our Other reporting unit, pursuant to accounting guidance based upon the allocation of assets and liabilities acquired and consideration paid for each reporting unit. As of May 27, 2018, the Biomaterials reporting unit had $13.9 million of goodwill, the Packaged Fresh Vegetables reporting unit had $35.4 million of goodwill, and the Other reporting unit had $5.2 million of goodwill.

The Company tests its indefinite-lived intangible assets for impairment at least annually, in accordance with accounting guidance. See Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies for a discussion of the analysis performed by the Company on indefinite-lived assets.

Income Taxes

The Company accounts for income taxes in accordance with accounting guidance which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. See Note 1 – Organization, Basis of Presentation, and Summary of

Significant Accounting Policies for a discussion of how the Company accounts for income taxes.

Stock-Based Compensation

The Company's stock-based awards include stock option grants and restricted stock unit awards ("RSUs"). The estimated fair value for stock options, which determines the Company's calculation of compensation expense, is based on the Black-Scholes pricing model. See Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies for a discussion of how the Company accounts for stock-based compensation.

Fair Value Measurements

The Company uses fair value measurement accounting for financial assets and liabilities and for financial instruments and certain other items measured at fair value. See Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies for a discussion of how the Company accounts for its investment in a non-public company and for its interest rate swap.

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Recent Accounting Pronouncements

Recently Adopted Pronouncements

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for certain income tax effects of the TCJA. Pursuant to SAB 118, as of May 27, 2018, the Company had not yet completed its accounting for the tax effects of the enactment of the TCJA. The Company's provision for income taxes for the year ended May 27, 2018 is based in part on its best estimate of the effects of the transition tax and existing deferred tax balances with its understanding of the TCJA and guidance available as of the date of this filing. The Company is still analyzing certain aspects of the TCJA and refining the estimate of the expected reversal of our deferred tax balance. This can potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The Company adopted the provision of SAB 118 in the third quarter of 2018.

Recently Issued Pronouncements to be Adopted

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, which creates FASB ASC Topic 606*, Revenue from Contracts with Customers* and supersedes ASC Topic 605, *Revenue Recognition* ("ASU 2014-09"). The guidance replaces industry-specific guidance and establishes a single five-step model to identify and recognize revenue. The core principle of the guidance is that an entity should recognize revenue upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires the entity to disclose further quantitative and qualitative information regarding the nature and amount of revenues arising from contracts with customers, as well as other information about the significant judgments and estimates used in recognizing revenues from contracts with customers. Since its original issuance, the FASB has issued several additional related ASUs to address implementation concerns and to further clarify certain guidance within ASU 2014-09. The Company will adopt these updates beginning with the first quarter of fiscal year 2019 and anticipates doing so using the modified retrospective method, which would require the Company to restate each prior reporting period presented consistent with the standard.

The Company recently completed its evaluation of the impact of the adoption of ASU 2014-09. As a result, the Company has identified the following core revenue streams from its contracts with customers:

Finished goods product sales (Packaged Fresh Vegetables);

Shipping and handling (Packaged Fresh Vegetables);

Product development and contract manufacturing arrangements (Biomaterials).

The Company's assessment efforts have included reviewing current accounting policies, processes, and systems requirements, as well assigning internal resources and third-party consultants to assist in the process. Based upon the Company's assessment, certain contract manufacturing arrangements within its Biomaterials segment contain termination provisions that, upon final assessment and adoption, may impact the timing of revenue recognition. Additionally, the Company has reviewed historical contracts and other arrangements to identify potential differences that could arise from the adoption of ASU 2014-09. Beyond its core revenue streams, and the items listed above, the Company has also evaluated the impact of ASU 2014-09 on certain ancillary transactions and other arrangements.

As a result of its assessment efforts, the Company does not currently anticipate any material changes to its processes, financial condition, or results of operations upon adoption of ASU 2014-09. The Company continues to assess the impact of ASU 2014-09, along with industry trends and additional interpretive guidance, on its core revenue streams, and as a result of the continued assessment, the Company may modify its plan to adoption accordingly.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use-assets. ASU 2016-02 also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The Company will adopt ASU 2016-02 beginning in the first quarter of fiscal year 2020 on a modified retrospective basis.

The Company is currently in the process of evaluating the impact that ASU 2016-02 will have upon its consolidated financial statements and related disclosures. The Company's assessment efforts to date have included:

Reviewing the provisions of ASU 2016-02;
Gathering information to evaluate its lease population and portfolio;
Evaluating the nature of its real and personal property and other arrangements that may meet the definition of a lease; and
Systems' readiness evaluations.

As a result of these efforts, the Company currently anticipates that the adoption of ASU 2016-02 will have a significant impact on its long-term assets and liabilities, as, at a minimum, virtually all of its leases designated as operating leases in Note 9 – Commitments and Contingencies, are expected to be reported on the consolidated balance sheets. The pattern of recognition for operating leases within the consolidated statements of comprehensive income is not anticipated to significantly change. This change will have no impact on the Company's ability to meet its loan covenants as the impact from the adoption of ASU 2016-02 was taken into consideration when determining its loan covenants.

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Income Taxes

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* that permits a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act enacted in December 2017. The standard is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

Hedging

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities* (ASU 2017-12), which amends the presentation and disclosure requirements and changes how companies assess effectiveness. The amendments are intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. ASU 2017-12 is effective for annual periods beginning after December 15, 2018, including interim periods within those periods. Early application is permitted. The Company is currently assessing the future impact of this update on its consolidated financial statements and related disclosures.

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which requires the measurement of all expected credit losses for financial assets including trade receivables held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The adoption of ASU 2016-13 is not expected to have a material impact on its consolidated financial statements and related disclosures.

Results of Operations

Fiscal Year Ended May 27, 2018 Compared to Fiscal Year Ended May 28, 2017

Revenues (in thousands):

	Year Ended		
	May 27, 2018	May 28, 2017	Change
Packaged Fresh Vegetables	$454,953	$408,021	12 %
Biomaterials	65,427	59,392	10 %
Other	3,847	2,363	63 %
Total Revenues	$524,227	$469,776	12 %

Packaged Fresh Vegetables (Apio)

Apio's Packaged Fresh Vegetables revenues consist of revenues generated from the sale of specialty packaged fresh-cut and whole processed vegetable products that are washed and packaged in our proprietary packaging and sold under Apio's Eat Smart and GreenLine brands and various private labels. In addition, Packaged Fresh Vegetables revenues include the revenues generated from the sale of BreatheWay packaging to license partners.

The increase in Apio's Packaged Fresh Vegetables revenues for the fiscal year ended May 27, 2018 compared to the same period last year was primarily due to a 9% increase in unit volume sales with a majority of the increase in revenues coming from increased sales of our salad products which are higher priced products compared to the Company's lower priced core products whose sales increased 4% in fiscal year 2018 compared to last year.

Biomaterials (Lifecore)

Lifecore principally generates revenue through the sale of products containing HA. Lifecore primarily sells products to customers in three medical areas: (1) Ophthalmic, which represented approximately 60% of Lifecore's revenues in fiscal year 2018, (2) Orthopedic, which represented approximately 10% of Lifecore's revenues in fiscal year 2018 and (3) Oncology/other products which represented approximately 30% of Lifecore's revenues in fiscal year 2018.

The increase in Lifecore's revenues for fiscal year 2018 compared to fiscal year 2017 was due to a $6.3 million increase in aseptic sales resulting from higher sales to existing customers and a $3.2 million increase in development revenues primarily due to new arrangements with new customers, partially offset by a $3.5 million decrease in fermentation sales to existing customers.

Other

Other revenues for fiscal year 2018 were from the sale of olive oils and vinegars by *O* and for fiscal year 2017 were primarily from two licensing agreements with corporate partners.

The increase in Other revenues for fiscal year 2018 compared to fiscal year 2017 was due to $3.8 million of revenues from the *O* business that was acquired on March 1, 2017 compared to $2.4 million in revenues in fiscal year 2017 primarily from two license agreements that were completed during fiscal year 2017.

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Gross Profit (in thousands):

	Year Ended		
	May 27, 2018	May 28, 2017	Change
Packaged Fresh Vegetables	$49,130	$51,148	(4 %)
Biomaterials	28,568	26,755	7 %
Other	640	1,309	(51 %)
Total Gross Profit	$78,338	$79,212	(1 %)

General

There are numerous factors that can influence gross profit including product mix, customer mix, manufacturing costs, volume, sales discounts and charges for excess or obsolete inventory, to name a few. Many of these factors influence or are interrelated with other factors. The Company includes in cost of sales all of the costs related to the sale of products in accordance with GAAP. These costs include the following: raw materials (including produce, seeds, packaging, syringes and fermentation and purification supplies), direct labor, overhead (including indirect labor, depreciation, and facility-related costs) and shipping and shipping-related costs. The following are the primary reasons for the changes in gross profit for the fiscal year ended May 27, 2018 compared to the same period last year as outlined in the table above.

Packaged Fresh Vegetables (Apio)

The decrease in gross profit for Apio’s Packaged Fresh Vegetables business for fiscal year 2018 compared to fiscal year 2017 was primarily due to $7.8 million of incremental produce sourcing costs during fiscal year 2018 resulting from hurricanes and tropical storms and from unseasonably hot weather in California which negatively impacted produce yields and quality. These incremental produce sourcing costs were partially offset by gross profit resulting from increased salad sales. The net of these factors resulted in the gross margin decreasing to 10.8% in fiscal year 2018 compared to 12.5% last fiscal year.

Biomaterials (Lifecore)

Lifecore operates in the medical devices and pharmaceutical industry and has historically realized an overall gross margin percentage of approximately 35-50%.

The increase in Lifecore's gross profit for fiscal year 2018 compared to fiscal year 2017 was due to a 10% increase in revenues partially offset by an unfavorable product mix change in fiscal year 2018 to a higher percentage of revenues coming from lower margin aseptically filled product sales than from higher margin fermentation sales compared to last year. As a result, Lifecore's gross margin decreased to 43.7% in fiscal year 2018 from 45.0% last year.

Other

The decrease in Other gross profit for fiscal year 2018 compared to fiscal year 2017 was due to the $640,000 of gross profit for fiscal year 2018 from *O* (which was acquired on March 1, 2017) being less than the gross profit from two license agreements which were completed during fiscal year 2017.

Operating Expenses (in thousands):

	Year Ended		Change
	May 27, 2018	May 28, 2017	
Research and Development:			
Apio	$5,457	$1,840	197%
Lifecore	5,360	5,387	(1%)
Other	1,983	2,246	(12%)
Total R&D	$12,800	$9,473	35%
Selling, General and Administrative:			
Apio	$32,584	$34,764	(6%)
Lifecore	5,878	5,422	8%
Other	13,489	12,305	10%
Total SG&A	$51,951	$52,491	(1%)

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Research and Development (R&D)

Landec's R&D consisted primarily of product development and commercialization initiatives. R&D efforts at Apio are focused on new product innovation, such as new salad lines and extensions, and the Company's proprietary BreatheWay membranes used for packaging produce, with a focus on extending the shelf-life of sensitive vegetables and fruit. In the Lifecore business, the R&D efforts are focused on new products and applications for HA-based and non-HA biomaterials. For Other, the R&D efforts are primarily focused on supporting the development and commercialization of new products and new technologies in the Company's new natural food business.

The Company's ability to compete successfully depends heavily upon its ability to ensure a continual and timely flow of innovative and competitive products, services, and technologies to the marketplace. The Company continues to develop new products and to expand the range of its product offerings through R&D.

R&D expenses include expenditures for new product and manufacturing process innovation, or a significant improvement to an existing product or process, which consist of expenses incurred in performing R&D activities, including compensation and benefits for R&D employees, facilities expenses, overhead expenses, cost of laboratory and innovation supplies, third-party formulation expenses, fees paid to contract research organizations and other consultants, stock-based compensation for R&D employees, and other outside expenses.

The increase in R&D expenses for fiscal year 2018 compared to fiscal year 2017 was due to a significant increase in product development activities at Apio driven primarily from the hiring of a VP of Innovation and R&D late in fiscal year 2017 and the subsequent staff hiring in that department, coupled with a significant increase in product development expenses at Apio.

Selling, General and Administrative (SG&A)

SG&A expenses consist primarily of sales and marketing expenses associated with the Company's product sales and services, business development expenses and staff and administrative expenses.

The decrease in SG&A expenses for fiscal year 2018 compared to fiscal year 2017 was due to a decrease in SG&A at Apio as a result of (1) a decrease in marketing expenses, (2) legal fees incurred during fiscal year 2017 from labor-related lawsuits settled during fiscal year 2017 and (3) severance costs incurred in fiscal year 2017. The decrease at Apio was partially offset by an increase in SG&A expenses in Other resulting from (1) an increase in stock-based compensation from equity grants, (2) new business development activities and (3) a $1.1 million increase in SG&A

expenses for *O* which was more than offset by a $1.9 million reduction in the contingent consideration liability associated with the *O* acquisition.

Non-operating income/(expense) (in thousands):

	Year Ended May 27, 2018	May 28, 2017	Change
Dividend Income	$1,650	$1,650	—
Interest Income	$211	$16	1219 %
Interest Expense, net	$(1,950)	$(1,826)	7 %
Loss on Debt Refinancing	$—	$(1,233)	N/M
Other Income	$2,900	$900	222 %
Income Tax Benefit (Expense)	$9,363	$(4,040)	N/M
Non-controlling Interest Expense	$(94)	$(87)	8 %

Dividend Income

Dividend income is derived from the dividends accrued on our $22.0 million preferred stock investment in Windset which yields a cash dividend of 7.5% annually. There was no change in dividend income for the fiscal year ended May 27, 2018 compared to the same period last year.

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Interest Income

The increase in interest income in fiscal year 2018 compared to fiscal year 2017 was due to the interest income from a note receivable to a third party that bears interest at a rate of 6.0% per annum.

Interest Expense, net

The increase in interest expense during fiscal year 2018 compared to fiscal year 2017 was due to an increase in borrowings under the Company's revolving credit facility at a higher weighted-average borrowing rate.

Loss on Debt Refinancing

The loss on debt refinancing was due to the write-off of unamortized debt issuance costs and early debt extinguishment prepayment penalties upon the Company refinancing its debt in September 2016.

Other Income

The increase in other income for fiscal year 2018 was due to the increase in the fair value of our investment in Windset being higher in fiscal year 2018 than in fiscal year 2017.

Income Tax Expense (Benefit)

As a result of the income tax benefit from the Tax Cuts and Jobs Act of 2017 (the "TCJA"), income taxes for fiscal year 2018 reflected a significant benefit (See Note 8 – Income Taxes, for more detail) as compared to fiscal year 2017 which reflected a tax expense based on pre-tax income.

Non-controlling Interest

The non-controlling interest consists of the limited partners' equity interest in the net income of Apio Cooling, LP. The Company purchased the non-controlling interest in Apio Cooling, LP during the fourth quarter of fiscal year 2018 and dissolved Apio Cooling LP.

The increase in non-controlling interest for fiscal year 2018 compared to the same period last year was not significant.

Fiscal Year Ended May 28, 2017 Compared to Fiscal Year Ended May 29, 2016

Revenues (in thousands):

	Year Ended		
	May 28, 2017	May 29, 2016	Change
Packaged Fresh Vegetables	$408,021	$423,859	(4 %)
Biomaterials	59,392	50,470	18 %
Other	2,363	2,589	(9 %)
Total Revenues	$469,776	$476,918	(1 %)

Packaged Fresh Vegetables (Apio)

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

The decrease in Apio's Packaged Fresh Vegetables revenues for the fiscal year ended May 28, 2017 compared to the fiscal year ended May 29, 2016 was primarily due to a 3% decrease in unit volume sales primarily resulting from the loss of some low margin core packaged vegetable business in retail grocery stores which began in the second half of fiscal year 2016 and from the loss of some club store business for salad kit products as a result of one key customer deciding to move to a multi-supplier sourcing strategy following industry-wide produce shortages in late fiscal 2016.

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Biomaterials (Lifecore)

Lifecore principally generates revenue through the sale of products containing HA. Lifecore primarily sells products to customers in three medical areas: (1) Ophthalmic, which represented approximately 65% of Lifecore's revenues in fiscal year 2017, (2) Orthopedic, which represented approximately 15% of Lifecore's revenues in fiscal year 2017 and (3) Other/Non-HA products which represented approximately 20% of Lifecore's revenues in fiscal year 2017.

The increase in Lifecore's revenues for fiscal year 2017 compared to fiscal year 2016 was due to a $8.0 million increase in fermentation sales resulting from higher sales to existing customers and a $4.5 million increase in aseptic filling revenues due to new commercial aseptic business and an increase in sales to existing customers, partially offset by a $3.6 million decrease in development revenues primarily due to the approval of a customer's drug product that is now being commercially sold.

Other

Other revenues are generated from the licensing agreements with corporate partners and the sale of olive oil and vinegars by *O*.

The decrease in Other revenues for the fiscal year ended May 28, 2017 compared to the same period last year was due to the completion of two licensing agreements in fiscal year 2017 which started at the beginning of fiscal year 2016 partially offset by $773,00 of revenues from *O* since its acquisition on March 1, 2017.

Gross Profit (in thousands):

	Year Ended		
	May 28, 2017	May 29, 2016	Change
Packaged Fresh Vegetables	$51,148	$40,479	26 %
Biomaterials	26,755	24,081	11 %
Other	1,309	2,221	(41 %)
Total Gross Profit	$79,212	$66,781	19 %

General

There are numerous factors that can influence gross profit including product mix, customer mix, manufacturing costs, volume, sales discounts and charges for excess or obsolete inventory, to name a few. Many of these factors influence or are interrelated with other factors. The Company includes in cost of sales all of the costs related to the sale of products in accordance with GAAP. These costs include the following: raw materials (including produce, seeds, packaging, syringes and fermentation and purification supplies), direct labor, overhead (including indirect labor, depreciation, and facility-related costs) and shipping and shipping-related costs. The following are the primary reasons for the changes in gross profit for the fiscal year ended May 28, 2017 compared to the same period last year as outlined in the table above.

Packaged Fresh Vegetables (Apio)

The increase in gross profit for Apio's Packaged Fresh Vegetables business for fiscal year 2017 compared to fiscal year 2016 was primarily due to the gross profit generated from a favorable mix shift in revenues to a greater percentage of revenues coming from higher margin products resulting primarily from the loss of some low margin business which began in the second half of fiscal year 2016, operational productivity improvement initiatives, and from the fact that during fiscal year 2016, Apio incurred approximately $15.6 million of excess costs from produce shortages. These factors resulted in gross margin increasing to 12.5% in fiscal year 2017 compared to 9.6% last fiscal year.

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Biomaterials (Lifecore)

Lifecore operates in the medical devices and pharmaceutical industry and has historically realized an overall gross margin percentage of approximately 35-50%.

The increase in Lifecore's gross profit for fiscal year 2017 compared to fiscal year 2016 was due to the increase in revenues partially offset by a higher percentage of revenue coming from lower margin aseptic filling revenues than from higher margin development revenues compared to last fiscal year.

Other

The decrease in Other revenues for the fiscal year ended May 29, 2017 compared to the fiscal year ended May 29, 2016 was due to the completion of two license agreements in fiscal year 2017 which started at the beginning of fiscal year 2016 partially offset by $177,000 of gross profit from *O* since its acquisition on March 1, 2017.

Operating Expenses (in thousands):

	Year Ended		
	May 28, 2017	May 29, 2016	Change
Research and Development:			
Apio	$1,840	$987	86 %
Lifecore	5,387	4,701	15 %
Other	2,246	1,540	46 %
Total R&D	$9,473	$7,228	31 %
Selling, General and Administrative:			
Apio	$37,344	$29,853	25 %
Lifecore	5,422	5,303	2 %
Other	12,305	11,025	12 %
Total SG&A	$55,071	$46,181	19 %

Research and Development (R&D)

The Company's R&D consisted primarily of product development and commercialization initiatives. R&D efforts at Apio are focused on new product development and on the Company's proprietary BreatheWay membranes used for packaging produce, with a focus on extending the shelf-life of sensitive vegetables and fruit. In the Lifecore business, the R&D efforts are focused on new products and applications for HA-based and non-HA biomaterials. For Other, the R&D efforts are primarily focused on supporting the development and commercialization of new products and new technologies in our Apio and Lifecore businesses and during fiscal years 2017 and 2016 on R&D collaborations with partners.

The increase in R&D expenses for the fiscal year ended May 28, 2017 compared to the fiscal year ended May 29, 2016 was due to a significant increase in product development activities at both Apio and Lifecore which resulted in the hiring of eight R&D personnel during fiscal year 2017. The increase was also due to supporting development partners for the Company's BreatheWay membrane technology and from the hiring of two new Vice Presidents to develop our new natural foods business and lead the *O* development efforts.

Selling, General and Administrative (S, G&A)

SG&A expenses consist primarily of sales and marketing expenses associated with the Company's product sales and services, business development expenses and staff and administrative expenses.

The increase in SG&A expenses for fiscal year 2017 compared fiscal year 2016 was due to an increase in expenses at Apio primarily to ramp up product launches, advertising, and promotions of Apio's existing and new salad kit products, additional headcount hired over the past year, and from an increase in Other primarily due to an increase in stock-based compensation from equity grants, from new business development activities and from $400,000 of SG&A expenses incurred by *O* since its acquisition on March 1, 2017.

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Non-operating income/(expense) (in thousands):

	Year Ended May 28, 2017	May 29, 2016	Change
Dividend Income	$1,650	$1,650	0 %
Interest Income	$16	$71	(77 %)
Interest Expense, net	$(1,826)	$(1,987)	(8 %)
Loss on Debt Refinancing	$(1,233)	$—	N/M
Other Income	$900	$1,200	(25 %)
Income Tax Expense (Benefit)	$(4,040)	$7,704	N/M
Non-controlling Interest	$(87)	$(193)	(55 %)

Dividend Income

Dividend income is derived from the dividends accrued on our $22.0 million preferred stock investment in Windset which yields a cash dividend of 7.5% annually. There was no change in dividend income for the fiscal year ended May 28, 2017 compared to the same period last year.

Interest Income

The decrease in interest income in fiscal year 2017 compared to fiscal year 2016 was not significant.

Interest Expense, net

The decrease in interest expense during fiscal year 2017 compared to fiscal year 2016 was due to the Company paying down its long-term debt and refinancing its debt at a lower interest rate.

Loss on Debt Refinancing

The loss on debt refinancing for the fiscal year 2017 was due to the write-off of unamortized debt issuance costs and early debt extinguishment prepayment penalties upon the Company refinancing its debt in September 2016.

Other Income

The decrease in other income for fiscal year 2017 was due to the increase in the fair value of our investment in Windset being lower in fiscal year 2017 than in fiscal year 2016.

Income Tax Expense (Benefit)

The increase in the income tax expense during fiscal year 2017 compared to fiscal year 2016 was due to the Company generating net income during fiscal year 2017 compared to realizing a loss during fiscal year 2016.

Non-controlling Interest

The non-controlling interest consists of the limited partners' equity interest in the net income of Apio Cooling, LP.

The decrease in non-controlling interest for fiscal year 2017 compared to the same period last year was not significant.

Liquidity and Capital Resources

As of May 27, 2018, the Company had cash and cash equivalents of $2.9 million, a net decrease of $3.1 million from $6.0 million at May 28, 2017.

Cash Flows from Operating Activities

The Company generated $19.8 million of cash from operating activities during fiscal year 2018 compared to generating $29.7 million of cash from operating activities during fiscal year 2017. The primary sources of cash from operating activities during fiscal year 2018 were from (1) $24.9 million of net income and (2) $16.8 million of depreciation/amortization and stock-based compensation expenses. These sources of cash from operating activities were partially offset by (1) a $7.2 million net decrease in deferred tax liabilities primarily due to TCJA, (2) a $2.9 million increase the fair market value of the Company's investment in Windset, (3) a $1.9 million decrease in the

Company's contingent liability from the *O* acquisition and (4) a $10.1 million net increase in working capital.

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The primary factors which increased working capital during fiscal year 2018 were (1) a $7.3 million increase in accounts receivable due primarily to sales in May 2018 being $7.7 million higher than May 2017 and (2) a $6.5 million increase in inventory due primarily to a $4.8 million increase at Lifecore to meet its increasing demand and a $2.8 million increase at Apio due primarily to the timing of shipments at fiscal year end 2018. The increases in working capital were partially offset by a $5.0 million increase in accounts payable due primarily to a $3.4 million increase at Lifecore from an increase in inventory at fiscal year end 2018 and from a $1.6 million increase at Apio from higher cost of sales in May 2018 compared to May 2017.

Cash Flows from Investing Activities

Net cash used in investing activities for fiscal year 2018 was $35.6 million compared to $25.4 million for the same period last year. The primary uses of cash in investing activities during fiscal year 2018 were for $33.6 million of expenditures for facility expansions and the purchase of equipment primarily to support the growth of the Apio Packaged Fresh Vegetables and Lifecore businesses and from the issuance of a $2.1 million note receivable.

Cash Flows from Financing Activities

Net cash provided by financing activities for fiscal year 2018 was $13.3 million compared to net cash used in financing activities of $8.8 million for the same period last year. The net cash provided by financing activities during fiscal year 2018 was primarily due to $24.0 million of net borrowings under the Company’s line of credit. These borrowings were partially offset by (1) $5.1 million of payments on the Company’s long-term debt, (2) $4.1 million to purchase the non-controlling interest in Apio Cooling, LP during the fourth quarter of fiscal year 2018 and (3) $1.5 million of taxes paid by the Company on behalf of employees on swaps for option exercises and RSU awards.

Capital Expenditures

During fiscal year 2018, Landec incurred expenditures for facility expansions and purchased equipment to support the growth of the Apio Packaged Fresh Vegetables and Lifecore businesses. These expenditures represented the majority of the $33.6 million of capital expenditures.

Debt

On September 23, 2016, the Company entered into a Credit Agreement with JPMorgan, BMO, and City National Bank, as lenders (collectively, the "Lenders"), and JPMorgan as administrative agent, pursuant to which the Lenders provided the Company with a $100 million revolving line of credit (the "Revolver") and a $50 million term loan facility (the "Term Loan"), guaranteed by each of the Company's direct and indirect subsidiaries and secured by substantially all of the Company's assets, with the exception of the Company's investment in Windset.

Both the Revolver and the Term Loan mature in five years (on September 23, 2021), with the Term Loan providing for quarterly principal payments of $1.25 million commencing December 1, 2016, with the remainder due at maturity.

Interest on both the Revolver and the Term Loan is based on either the prime rate or Eurodollar rate, at the Company's discretion, plus a spread based on the Company's leverage ratio (generally defined as the ratio of the Company's total indebtedness on such date to the Company's consolidated earnings before interest, taxes, depreciation, and amortization ("EBITDA") for the period of four consecutive fiscal quarters ended on or most recently prior to such date). The spread is at a per annum rate of (i) between 0.25% and 1.25% if the prime rate is elected or (ii) between 1.25% and 2.25% if the Eurodollar rate is elected.

The Credit Agreement provides the Company with the right to increase the Revolver commitments and/or the Term Loan commitments by obtaining additional commitments either from one or more of the Lenders or another lending institution at an amount of up to $75 million.

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The Credit Agreement contains customary financial covenants and events of default under which the payment obligation could be accelerated and/or the interest rate increased. The Company was in compliance with all financial covenants as of May 27, 2018.

On November 1, 2016, the Company entered into an interest rate swap agreement ("Swap") with BMO at a notional amount of $50 million. The Swap has the effect of changing the Company's Term Loan obligation from a variable interest rate to a fixed 30-day LIBOR rate of 1.22%. As of May 27, 2018, the interest rate on the Term Loan was 3.22%. For further discussion regarding the Company's use of derivative instruments, see the Financial Instruments section of Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies.

In connection with the Credit Agreement, the Company incurred lender and third-party debt issuance costs of $897,000, of which $598,000 and $299,000 were allocated to the Revolver and Term Loan, respectively. The Company recorded its revolving debt issuance costs as an asset, and as such, $120,000 and $478,000 were recorded as prepaid expenses and other current assets and other assets, respectively. The Company records its Term Loan debt issuance costs as a contra-liability, and as such, $60,000 and $239,000 were recorded as current portion of long-term debt and long-term debt, respectively.

Concurrent with the close of the Credit Agreement, all of the proceeds of the Term Loan, and $1.5 million of the Revolver, were used by the Company to repay all then existing debt. Accordingly, during fiscal year 2017 the Company recognized a loss on debt refinancing of $1.2 million, which included $233,000 of payments for early debt extinguishment penalties and $1.0 million from the write-off of unamortized debt issuance costs on the Company's then existing debt as of September 23, 2016.

As of May 27, 2018, $27.0 million was outstanding on the Revolver. As of May 27, 2018, the interest rate on the Revolver was 3.91% for the $23.0 million under the Libor option, and 5.75% for the $4.0 million under the Alternative Base Rate (Prime) option.

Contractual Obligations

The Company's material contractual obligations for the next five years and thereafter as of May 27, 2018, are as follows (in thousands):

	Due in Fiscal Year Ended May					
Obligation	Total	2019	2020	2021	2022	2023	Thereafter

Debt principal payments	$42,500	$5,000	$5,000	$5,000	$27,500	$—	$ —
Interest payments	4,763	1,635	1,451	1,248	429	—	—
Capital leases	5,394	473	484	487	460	3,490	—
Operating leases	21,036	3,737	2,894	2,258	1,839	1,719	8,589
Purchase commitments	30,738	24,439	1,500	2,100	2,699	—	—
Total	$104,431	$35,284	$11,329	$11,093	$32,927	$5,209	$ 8,589

The interest payment amounts above include the interest on the Term Loan and the interest on the Company's capital leases. See Note 7 – Debt for further information on the Company's loans.

The Company 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.

The Company's future capital requirements will depend on numerous factors, including the progress of its research and development programs; the continued development of marketing, sales and distribution capabilities; the ability of the Company to establish and maintain new licensing arrangements; the costs associated with employment-related claims; 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 the Company's currently available funds, together with the internally generated cash flow from operations are not sufficient to satisfy its capital needs, the Company 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 the Company on favorable terms, if at all.

The Company believes that its cash from operations, along with existing cash and cash equivalents will be sufficient to finance its operational and capital requirements for at least the next twelve months.

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

Not significant.

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

As of May 27, 2018, 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 because of the material weakness in internal control over financial reporting as described below, our disclosure controls and procedures, in their entirety, were not effective.

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Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission, and are effective in providing 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.

In light of the material weakness described below, we performed additional analysis and other post-closing procedures to ensure our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Accordingly, our management, including our Chief Executive and Chief Financial Officers, have concluded that the consolidated financial statements included in this Form 10-K present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

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). Accordingly, and due to its inherent limitation, internal control over financial reporting cannot be expected to prevent all errors 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.

Our management assessed the effectiveness of our internal control over financial reporting as of May 27, 2018. 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 (2013 Framework). Our management has concluded that, as of May 27, 2018, due to the material weakness described below, our internal control over financial reporting, in its entirety, was not effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

During the fourth quarter 2018, the Company identified errors in its current and previously filed statements of cash flows related to improperly including accrued capital expenditures in its cash outflows used in investing activities. The errors arose as a result of a deficiency in the operation of the Company's cash flow reconciliation control. Specifically,

the Company had developed an accounting policy for the treatment of accrued capital expenditures that resulted in a deviation from GAAP and failed to execute its control to monitor the significance of such deviations. As a result, while the impact of the errors was immaterial to previously filed annual financial statements, the Company concluded that the errors were material to its quarterly Consolidated Statements of Cash Flows for fiscal years 2018 and 2017 and has restated those cash flows as reflected in the footnotes to the fiscal year 2018 financial statements.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on our internal control over financial reporting, which appears on page 35.

Plan to Remediate Material Weakness

Management, along with the Board of Directors, is fully committed to maintaining a robust internal control environment. The Company has taken and will continue to take significant and comprehensive actions to remediate the material weakness in internal control over financial reporting. Management has taken the initial steps to implement the following changes:

Obtain detailed accrued capital expenditures from each subsidiary on no less than a quarterly basis.
Develop internal control procedures to evaluate the proper accounting treatment and presentation of accrued capital expenditures in the Company’s statements of cash flows. Specifically, the control will involve the review of the detail and performance of additional procedures to ensure the detail is complete and accurate. As a result, the preparation of the consolidated statements of cash flow will (1) exclude the amount of accrued capital expenditures for each period presented, and (2) include disclosure of noncash investing activity in the statements of cash flows by disclosing total accrued capital expenditures at each period end.

Management believes the steps outlined above, when fully implemented, will remediate the material weakness described above. The Audit Committee of the Board of Directors and management will continue to monitor the implementation of these remedial measures and the effectiveness of our internal controls and procedures on an ongoing basis.

As management continues to evaluate and work to improve our disclosure controls and procedures and internal control over financial reporting, we may determine to take additional steps to address these deficiencies or determine to modify certain of the remediation measures described above.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting during the fiscal year ended May 27, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Landec Corporation

Opinion on Internal Control over Financial Reporting

We have audited Landec Corporation and subsidiaries' internal control over financial reporting as of May 27, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, Landec Corporation and subsidiaries (the Company) has not maintained effective internal control over financial reporting as of May 27, 2018, based on the COSO criteria.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. The Company did not maintain effective controls over the monitoring of the material compliance with U.S. generally accepted accounting principles relating to its accounting policy governing the classification of accrued capital additions in its statements of cash flows.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of May 27, 2018 and May 28, 2017, and the related consolidated statements income (loss), comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended May 27, 2018, and the related notes. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2018 consolidated financial statements, and this report does not affect our report dated August 9, 2018, which expressed an unqualified opinion thereon.

Basis for Opinion

The Company'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 included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered

with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

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.

/s/ Ernst & Young LLP

San Francisco, California

August 9, 2018

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

None

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PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

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 24, 2018 (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 24, 2018 (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 and Related Stockholder Matters***

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 24, 2018 (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 and Director Independence***

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 24, 2018 (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 24, 2018 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

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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.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Landec Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Landec Corporation and subsidiaries (the Company) as of May 27, 2018 and May 28, 2017, and the related consolidated statements income (loss), comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended May 27, 2018, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at May 27, 2018 and May 28, 2017, and the results of its operations and its cash flows for each of the three years in the period ended May 27, 2018, 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) (PCAOB), the Company's internal control over financial reporting as of May 27, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated August 9, 2018 expressed an adverse opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company‘s management. Our responsibility is to express an opinion on the Company‘s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2008.

San Francisco, California

August 9, 2018

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LANDEC CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

	May 27, 2018	May 28, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$2,899	$5,998
Accounts receivable, less allowance for doubtful accounts	53,877	45,899
Inventories	31,819	23,620
Prepaid expenses and other current assets	7,958	3,498
Other current assets, discontinued operations	510	2,265
Total Current Assets	97,063	81,280
Investment in non-public company, fair value	66,500	63,600
Property and equipment, net	159,624	133,220
Goodwill	54,510	54,510
Trademarks/trade names, net	16,028	16,028
Customer relationships, net	5,814	6,783
Other assets	5,164	2,918
Other assets, discontinued operations	—	269
Total Assets	$404,703	$358,608
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$34,668	$24,527
Accrued compensation	9,978	7,506
Other accrued liabilities	8,706	9,045
Deferred revenue	2,625	310
Line of credit	27,000	3,000
Current portion of long-term debt, net	4,940	4,940
Other current liabilities, discontinued operations	458	2,126
Total Current Liabilities	88,375	51,454
Long-term debt, net	37,360	42,299
Capital lease obligation, less current portion	3,641	3,731
Deferred taxes, net	17,485	24,581
Other non-current liabilities	5,280	8,391
Total Liabilities	152,141	130,456
Stockholders' Equity:		

Common stock, $0.001 par value; 50,000,000 shares authorized; 27,702 and 27,499 shares issued and outstanding at May 27, 2018 and May 28, 2017, respectively	28	27
Additional paid-in capital	142,087	141,680
Retained earnings	109,299	84,470
Accumulated other comprehensive income	1,148	432
Total Stockholders' Equity	252,562	226,609
Non-controlling interest	—	1,543
Total Equity	252,562	228,152
Total Liabilities and Stockholders' Equity	$404,703	$358,608

See accompanying notes to the consolidated financial statements.

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LANDEC CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(In thousands, except per share amounts)

	Year Ended		
	May 27, 2018	May 28, 2017	May 29, 2016
Product sales	$524,227	$469,776	$476,918
Cost of product sales	445,889	390,564	410,137
Gross profit	78,338	79,212	66,781
Operating costs and expenses:			
Research and development	12,800	9,473	7,228
Selling, general and administrative	51,951	52,491	46,181
Legal settlement charge	—	2,580	—
Impairment of GreenLine trade name	—	—	34,000
Total operating costs and expenses	64,751	64,544	87,409
Operating income (loss)	13,587	14,668	(20,628)
Dividend income	1,650	1,650	1,650
Interest income	211	16	71
Interest expense, net	(1,950)	(1,826)	(1,987)
Loss on debt refinancing	—	(1,233)	—
Other income	2,900	900	1,200
Net income (loss) from continuing operations before taxes	16,398	14,175	(19,694)
Income tax benefit (expense)	9,363	(4,040)	7,704
Net income (loss) from continuing operations	25,761	10,135	(11,990)
Discontinued operations:			
(Loss) income from discontinued operations	(1,188)	837	842
Income tax benefit (expense)	350	(295)	(300)
(Loss) income from discontinued operations, net of tax	(838)	542	542
Consolidated net income (loss)	24,923	10,677	(11,448)
Non-controlling interest expense	(94)	(87)	(193)
Net income (loss) applicable to common stockholders	$24,829	$10,590	$(11,641)
Basic net income (loss) per share:			
Income (loss) from continuing operations	$0.93	$0.37	$(0.45)
(Loss) income from discontinued operations	(0.03)	0.02	0.02
Total basic net income (loss) per share	$0.90	$0.39	$(0.43)

Diluted net income (loss) per share:			
Income (loss) from continuing operations	$0.92	$0.36	$(0.45)
(Loss) income from discontinued operations	(0.03)	0.02	0.02
Total diluted net income (loss) per share	$0.89	$0.38	$(0.43)
Shares used in per share computation:			
Basic	27,535	27,276	27,044
Diluted	27,915	27,652	27,044

See accompanying notes to the consolidated financial statements.

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LANDEC CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts)

	Year Ended		
	May 27, 2018	May 28, 2017	May 29, 2016
Net income (loss) applicable to common stockholders	$24,829	$10,590	$(11,641)
Other comprehensive income, net of tax:			
Change in net unrealized gains on interest rate swap (net of tax effect of $123, $254, and $0)	$716	$432	$—
Other comprehensive income, net of tax	716	432	—
Total comprehensive income (loss)	$25,545	$11,022	$(11,641)

See accompanying notes to the consolidated financial statements.

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LANDEC CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN

STOCKHOLDERS' EQUITY

(In thousands, except per share amounts)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Total Stockholders'	Non-controlling
	Shares	Amount	Capital	Earnings	Income	Equity	Interest
Balance at May 31, 2015	26,990	$ 27	$ 133,307	$ 85,098	$ —	$ 218,432	$ 1,677
Issuance of common stock at $5.63 to $9.01 per share, net of taxes paid by Landec on behalf of employees	125	—	322	—	—	322	—
Issuance of common stock for vested restricted stock units ("RSUs")	33	—	—	—	—	—	—
Stock-based compensation	—	—	3,465	—	—	3,465	—
Tax benefit from stock-based compensation expense	—	—	150	—	—	150	—
Payments to non-controlling interest ("NCI")	—	—	—	—	—	—	(248)
Net and comprehensive loss	—	—	—	(11,641)	—	(11,641)	193
Balance at May 29, 2016	27,148	27	137,244	73,457	—	210,728	1,622
Cumulative-effect adjustment - ASU 2016-09 adoption	—	—	200	423	—	623	—
Issuance of common stock at $5.63 to $11.36 per share, net of taxes paid by Landec on behalf of employees	244	—	706	—	—	706	—
Issuance of common stock for vested RSUs	107	—	—	—	—	—	—
Taxes paid by Company for stock swaps and RSUs	—	—	(434)	—	—	(434)	—
Stock-based compensation	—	—	3,964	—	—	3,964	—
Payments to NCI	—	—	—	—	—	—	(166)
Net income	—	—	—	10,590	—	10,590	87
Other comprehensive income, net of tax	—	—	—	—	432	432	—
Balance at May 28, 2017	27,499	27	141,680	84,470	432	226,609	1,543
Issuance of common stock at $5.77 to $11.36 per share, net of taxes	17	1	55	—	—	56	—

paid by Landec on behalf of employees							
Issuance of common stock for vested RSUs	186	—	—	—	—	—	—
Taxes paid by Company for stock swaps and RSUs	—	—	(1,478)	—	—	(1,478)	—
Stock-based compensation	—	—	4,403	—	—	4,403	—
Payments to NCI	—	—	—	—	—	—	(115)
Net income	—	—	—	24,829	—	24,829	94
Purchase of NCI	—	—	(2,573)	—	—	(2,573)	(1,522)
Other comprehensive income, net of tax	—	—	—	—	716	716	—
Balance at May 27, 2018	27,702	$ 28	$ 142,087	$ 109,299	$ 1,148	$ 252,562	$ —

See accompanying notes to the consolidated financial statements.

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LANDEC CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended		
	May 27, 2018	May 28, 2017	May 29, 2016
Cash flows from operating activities:			
Consolidated net income (loss)	$24,923	$10,677	$(11,448)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	12,412	10,677	9,395
Stock-based compensation expense	4,403	3,964	3,465
Loss on early debt extinguishment	—	1,233	—
Deferred taxes	(7,221)	2,506	(9,787)
Change in investment in non-public company, fair value	(2,900)	(900)	(1,200)
Net loss on disposal of property and equipment	157	586	46
Impairment of GreenLine trade name	—	—	34,000
Change in contingent consideration liability	(1,900)	—	—
Changes in assets and liabilities:			
Accounts receivable, net	(7,312)	(336)	73
Inventories	(6,529)	855	(508)
Prepaid expenses and other current assets	(3,987)	1,039	965
Accounts payable	4,965	(4,778)	(5,277)
Accrued compensation	1,981	2,751	(1,282)
Other accrued liabilities	(1,383)	2,086	2,556
Restricted cash collateral	—	(100)	(225)
Deferred revenue	2,170	(522)	(11)
Net cash provided by operating activities	19,779	29,738	20,762
Cash flows from investing activities:			
Purchases of property and equipment	(33,590)	(23,003)	(39,695)
Acquisition of *O* (Note 2)	—	(2,500)	—
Deposit on capital lease	—	—	(850)
Proceeds from sales of fixed assets	100	81	127
Issuance of pacific harvest note receivable	(2,099)	—	—
Net cash used in investing activities	(35,589)	(25,422)	(40,418)
Cash flows from financing activities:			
Proceeds from sale of common stock	56	706	322
Taxes paid by Company for stock swaps and RSUs	(1,478)	(434)	—
Net change in other assets/liabilities	—	(41)	(247)

Proceeds from long term debt	—	50,000	26,748
Payments on long term debt	(5,076)	(57,236)	(14,652)
Proceeds from lines of credit	33,000	4,500	26,100
Payments on lines of credit	(9,000)	(5,000)	(22,600)
Payments for debt issuance costs	—	(897)	—
Payments for early debt extinguishment penalties	—	(233)	—
Purchase of non-controlling interests	(4,095)	—	—
Payments to non-controlling interest	(115)	(166)	(248)
Net cash provided by (used in) financing activities	13,292	(8,801)	15,423
Net decrease in cash and cash equivalents	(2,518)	(4,485)	(4,233)
Cash and cash equivalents at beginning of year	5,409	9,894	14,127
Cash and cash equivalents at end of year	$2,891	$5,409	$9,894
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$2,292	$2,332	$2,017
Cash paid during the period for income taxes, net of refunds received	$283	$2,792	$2,625
Supplemental disclosure of non-cash investing and financing activities:			
Facility and equipment acquired under a capital lease	$—	$—	$