

LANDEC CORP \CA\
Form 10-Q/A
January 02, 2013
United States

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

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

For the Fiscal Quarter Ended August 26, 2012, or

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

For the transition period from _____ to _____.

Commission file number: 0-27446

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

Delaware
(State or other jurisdiction of incorporation or organization)

94-3025618
(IRS Employer Identification Number)

3603 Haven Avenue

Menlo Park, California 94025
(Address of principal executive offices, including zip code)

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

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

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer" and "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non Accelerated Filer

Smaller Reporting Company

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

Yes No

As of September 21, 2012, there were 25,714,484 shares of Common Stock outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (the “Amendment”) amends our Quarterly Report on Form 10-Q for the quarter ended August 26, 2012, which was filed on October 3, 2012 with the Securities and Exchange Commission (the “SEC”).

We are filing this Amendment to (i) restate our previously reported financial statements for this period to change the previously reported amount of our investment in Windset Holdings 2010, Ltd. (“Windset”) and to make a corresponding increase in other income to reflect the higher fair value of our investment (see also “Item 1. Financial Statements – Note 2. Restatement of Previously Reported Consolidated Financial Statements” for discussion of significant changes), and (ii) amend “Item 4. Controls and Procedures” to disclose certain matters identified in connection with the Company’s evaluation, under the supervision and with the participation of the Company’s management, of the effectiveness of its disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended.

The fair value of the Company’s investment in Windset has been determined utilizing a discounted cash flow model based on projections developed by Windset, and taking into account the put and call feature of the investment. This feature impacts the duration of the cash flow utilized to derive the estimated fair value of the investment. Assumptions included in the discounted cash flow model are to be evaluated quarterly based on Windset’s actual and projected operating results to determine the change in fair value.

While updating the valuation of the Windset investment for the second quarter ended November 25, 2012, the Company became aware of an error in the net present value calculation used to determine the fair value of its Windset investment. This error resulted in an understatement of the recorded value of the Windset investment and related investment income by \$2.9 million, and, after the related income tax effect, an understatement of net income by \$1.8 million for the quarter ended August 26, 2012.

Management and the audit committee have discussed the errors with the Company’s independent registered public accounting firm, Ernst & Young LLP, and the audit committee has determined, based on this discussion and management’s recommendations, to restate the previously reported unaudited consolidated financial statements as of and for the quarter ended August 26, 2012.

We have amended each item of our Quarterly Report on Form 10-Q for the quarter ended August 26, 2012 that has been affected by the restatement. This Amendment does not reflect events occurring after the October 3, 2012 filing of our Form 10-Q or modify or update the disclosures set forth therein in any way, except as required to reflect the effects of the restatement and as relates to the disclosure controls and procedures. Therefore, this Amendment should be read together with other documents that the Company has filed with the SEC subsequent to the filing of the original Quarterly Report on Form 10-Q for the quarter ended August 26, 2012. Information in such reports and documents updates and supersedes certain information contained in this Amendment.

There is no effect on previously reported cash flows from operating, investing, or financing activities for this change. The change in the accounting treatment has no impact on the economics of our investment in Windset. Likewise, this change has no effect on revenues or operating income.

None of the financial covenants in our loan agreements were breached as a result of this restatement. No event of default exists with respect to our loan agreements.

We have reassessed our disclosure controls and procedures as disclosed in Item 4 below relating to a material weakness in our internal control over financial reporting with respect to accounting for fair value measurement, which was identified in connection with the discovery of the error in the application of ASC 820.

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LANDEC CORPORATION

FORM 10-Q For the Fiscal Quarter Ended August 26, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	August 26, 2012 (Unaudited and Restated)	May 27, 2012 (1)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$10,049	\$22,177
Marketable securities	756	—
Accounts receivable, less allowance for doubtful accounts of \$524 and \$512 at August 26, 2012 and May 27, 2012, respectively	30,295	31,951
Accounts receivable, related party	268	323
Income taxes receivable	316	47
Inventories, net	23,543	22,011
Deferred taxes	2,076	2,076
Prepaid expenses and other current assets	2,838	2,578
Total Current Assets	70,141	81,163
Investment in non-public company, non-fair value	793	793
Investment in non-public company, fair value	25,796	21,500
Property and equipment, net	63,776	63,495
Goodwill, net	49,620	49,620
Trademarks/tradenames, net	48,428	48,428
Customer relationships, net	10,269	10,557
Other assets	2,037	2,136
Total Assets	\$270,860	\$277,692
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$26,724	\$22,644
Related party accounts payable	533	776
Accrued compensation	3,958	5,782
Other accrued liabilities	7,566	18,642
Deferred revenue	276	162
Lines of credit	7,500	11,666
Current portion of long-term debt	7,012	7,012
Total Current Liabilities	53,569	66,684
Long-term debt, less current portion	38,936	40,305
Deferred taxes	19,979	18,037
Other non-current liabilities	1,349	1,108
Total Liabilities	113,833	126,134
Stockholders' Equity:		

Common stock, \$0.001 par value; 50,000,000 shares authorized; 25,709,984 and 25,644,580 shares issued and outstanding at August 26, 2012 and May 27, 2012, respectively	26	26
Additional paid-in capital	120,900	119,894
Retained earnings	34,188	29,822
Total Stockholders' Equity	155,114	149,742
Non controlling interest	1,913	1,816
Total Equity	157,027	151,558
Total Liabilities and Stockholders' Equity	\$270,860	\$277,692

(1) Derived from audited financial statements.

See accompanying notes.

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

	Three Months Ended	
	August 26, 2012 (Restated)	August 28, 2011
Revenues:		
Product sales	\$ 101,303	\$ 72,321
Services revenue, related party	771	980
Total revenues	102,074	73,301
Cost of revenue:		
Cost of product sales	87,664	61,269
Cost of services revenue	647	782
Total cost of revenue	88,311	62,051
Gross profit	13,763	11,250
Operating costs and expenses:		
Research and development	2,204	2,333
Selling, general and administrative	8,556	6,044
Total operating costs and expenses	10,760	8,377
Operating income	3,003	2,873
Dividend income	281	281
Interest income	26	76
Interest expense	(541)	(176)
Other income	4,259	9
Net income before taxes	7,028	3,063
Income tax expense	(2,565)	(1,110)
Consolidated net income	4,463	1,953
Non controlling interest	(97)	(141)
Net income applicable to Common Stockholders	4,366	1,812
Basic net income per share	\$0.17	\$0.07
Diluted net income per share	\$0.17	\$0.07
Shares used in per share computation		
Basic	25,670	