

This document consists of 32 pages, of which this is page
Number 1. The index to Exhibits is on Page 16.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Fiscal Quarter Ended April 30, 1996, or

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

For the Transition period from _____ to _____.

Commission file number: 0-27446

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

California
(State or other jurisdiction of
incorporation or organization)

94-3025618
(IRS Employer
Identification Number)

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

Registrant's telephone number, including area code:
(415) 306-1650

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

Yes X No
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As of May 31, 1996, 10,674,858 shares of the Registrant's common stock were
outstanding.

-1-

LANDEC CORPORATION

FORM 10-Q For the Quarter Ended April 30, 1996

INDEX

	Page
Facing sheet	1
Index	2
Part I. Financial Statements	
Item 1. a) Consolidated condensed balance sheets as of April 30, 1996 and October 31, 1995	3
b) Consolidated statements of operations for the three and six months ended April 30, 1996 and 1995	4
c) Consolidated statements of cash flows for the six months ended April 30, 1996 and 1995	5
d) Notes to consolidated financial statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	8
Part II. Other Information	14
Signature	15
Index to Exhibits	16

-2-

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LANDEC CORPORATION
 CONSOLIDATED CONDENSED BALANCE SHEETS
 (Unaudited)
 (In thousands, except share amounts)

	April 30, 1996	October 31, 1995
Assets	-----	-----
Current Assets:		
Cash and cash equivalents	\$ 20,181	\$ 3,585
Short-term investments	19,025	1,964
Accounts receivable, net	63	53
Inventories	508	488
Prepaid expenses and other current assets	237	115
	-----	-----
Total Current Assets	40,014	\$ 6,205
Property and equipment, net	987	993
Other assets	123	149
	-----	-----
	\$ 41,124	\$ 7,347
	=====	=====
Liabilities and Stockholders' Equity (Net Capital Deficiency)		
Current Liabilities:		
Convertible notes payable	\$ -	\$ -
Accounts payable	298	291
Accrued compensation	326	302
Other accrued liabilities	423	281
Current portion of capital lease obligations	213	239
Deferred revenue	304	129
	-----	-----
Total Current Liabilities	1,564	1,942
Non-current portion of capital lease obligations	448	558
Redeemable convertible preferred stock at accreted value	-	31,276
Stockholder's Equity (Net Capital Deficiency):		
Preferred stock	-	-
Common stock	68,130	536
Notes receivable from shareholders	(12)	(20)
Deferred compensation	(351)	(407)
Accumulated deficit	(28,655)	(26,538)
	-----	-----
Total Stockholders' Equity (Net Capital Deficiency)	39,112	(26,429)
	-----	-----
	\$ 41,124	\$ 7,347
	=====	=====

See accompanying notes.

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

	Three Months 1996	Ended April 30, 1995	Six Months 1996	Ended April 30, 1995
	-----	-----	-----	-----
Revenues:				
Product sales	\$ 281	\$ 198	\$ 412	\$ 441
License fees	600	450	600	650
Research and development revenues	394	196	682	389
	-----	-----	-----	-----
Total revenues	1,275	844	1,694	1,480
	-----	-----	-----	-----
Operating costs and expenses:				
Cost of product sales	295	327	539	652
Research and development	945	921	1,898	1,776
Selling, general and administrative	733	538	1,224	1,045
	-----	-----	-----	-----
Total operating costs and expenses	1,973	1,786	3,661	3,473
	-----	-----	-----	-----
Operating loss	(698)	(942)	(1,967)	(1,993)
	-----	-----	-----	-----
Interest income	439	63	506	133
Interest expense	(8)	(35)	(54)	(63)
	-----	-----	-----	-----
Net loss	\$ (267)	\$ (914)	\$ (1,515)	\$ (1,923)
	=====	=====	=====	=====
Net loss per share	\$ (0.03)	\$ (0.77)	\$ (0.32)	\$ (1.63)
	=====	=====	=====	=====
Shares used in computation of net loss per share	8,874	1,182	4,713	1,181
	=====	=====	=====	=====
Supplemental net loss per share	\$ (0.03)	\$ (0.13)	\$ (0.17)	\$ (0.27)
Shares used in computation of supplemental net loss per share	10,016	7,095	8,709	7,060
	=====	=====	=====	=====

See accompanying notes.

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

	Six Months Ended 1996	April 30, 1995
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (1,515)	\$ (1,923)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	195	195
Loss on disposal of fixed assets	--	24
Amortization of deferred compensation	56	--
Changes in current assets and liabilities:		
Accounts receivable	(10)	69
Inventories	(20)	(206)
Prepaid expenses and other current assets	(122)	27
Accounts payable	7	(74)
Accrued compensation	24	(1)
Other accrued liabilities	142	86
Deferred revenue	175	131
	-----	-----
Total adjustments	196	32
	-----	-----
Net cash used in operating activities	(1,068)	(1,672)
	-----	-----
Cash flows from investing activities:		
Purchases of property and equipment	(189)	(25)
Increase in other assets	26	(12)
Purchases of available-for-sale securities	(20,108)	(3,960)
Maturities of available-for-sale securities	3,000	5,300
	-----	-----
Net cash (used for) provided by investing activities:	(17,271)	1,303
	-----	-----
Cash flows from financing activities:		
Proceeds from sale of common stock	35,062	3
Proceeds from repayment of notes receivable	9	2
Payments of capital lease obligations	(136)	(86)
Proceeds from capital lease financing of prior year capital expenditures	--	138
Proceeds from issuance of convertible notes payable	--	700
	-----	-----
Net cash provided by financing activities	34,935	757
	-----	-----
Net increase in cash and cash equivalents	16,596	388
Cash and cash equivalents at beginning of period	3,585	2,411
	-----	-----
Cash and cash equivalents at end of period	\$ 20,181	\$ 2,799
	=====	=====

See accompanying notes.

LANDEC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Landec Corporation (the "Company" or "Landec") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations, and cash flows at April 30, 1996, and for all periods presented, have been made. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying financial data should be reviewed in conjunction with the audited financial statements and notes thereto included in the Company's Registration Statement on Form S-1 (Registration Statement File. No. 33-80733) and related prospectus for the Company's initial public offering of its Common Stock, which was completed on February 15, 1996.

The results of operations for the three and six month periods ended April 30, 1996 are not necessarily indicative of the results that may be expected for the fiscal year ended October 31, 1996.

2. Inventories

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

	April 30 1996	October 31, 1995
	----	----
	(in thousands)	
Raw materials	\$ 119	\$ 123
Work in process	210	169
Finished goods	179	196
	---	---
	\$ 508	\$ 488
	===	===

3. Net Loss Per Share

Except as noted below, historic net loss per share is computed using the weighted average number of common shares outstanding. Common equivalent shares are excluded from the computation as their effect is antidilutive, except that, pursuant to the Securities and Exchange Commission ("SEC") Staff Accounting Bulletins, common and common equivalent shares (stock options, convertible notes payable and preferred stock) issued during the 12-month period prior to the initial filing of the proposed offering at prices below the assumed public offering price have been included in the calculation as if they were outstanding for all periods through October 31, 1995 (using the treasury stock method for stock options and initial public offering price of \$11.00 per share).

As described above, the antidilutive effect of certain stock options is included in the calculation of loss per share for the three month and six month periods ended April 30, 1995, but is excluded from the calculation after that date. Supplemental per share data is provided to show the calculation on a consistent basis for the periods presented. It has been computed as described above, but excludes the antidilutive effect of common equivalent shares from stock options and warrants issued at prices substantially below the public offering price during the 12-month period prior to the initial filing of the public offering, and also gives retroactive effect from the date of issuance to the conversion of preferred stock and promissory notes which automatically converted to common shares upon the closing of the Company's initial public offering.

4. Shareholders' Equity

On February 15, 1996 the Company completed an initial public offering of 2,800,000 shares of common stock at a price of \$12.00 per share. The net proceeds to the Company from the initial public offering were approximately \$31.2 million, after deducting underwriting discounts and commissions.

Upon completion of the initial public offering all 6,674,415 outstanding shares of redeemable convertible preferred stock and \$700,000 of notes payable were automatically converted into 6,674,415 and 176,432 shares of common stock, respectively.

In March 1996, the underwriters exercised their overallotment option to purchase 420,000 shares of common stock for \$12.00 per share. The Company received an additional \$4.7 million in offering proceeds, after deducting underwriting discounts and commissions.

5. Reclassifications

Certain prior year balances have been reclassified to conform with current year presentation.

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

The following discussion should be read in conjunction with the unaudited consolidated financial statements and notes thereto included in Part I--Item 1 of this Form 10Q and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended October 31, 1995 contained in the Company's Registration Statement on Form S-1 (Registration Statement No. 33-80733) and related prospectus for the Company's initial public offering of its Common Stock, which was completed on February 15, 1996.

Except for the historical information contained herein, the matters discussed in this report are forward-looking statements that involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Potential risks and uncertainties include, without limitation, those mentioned in this report and, in particular the factors described below under "Additional Factors That May Affect Future Results," and those mentioned in the Company's prospectus dated February 15, 1996, under "Risk Factors."

Overview

Since its inception in October 1986, the Company has been primarily engaged in the research and development of its Intelimer technology and related products. The Company launched its first product line, QuickCast splints and casts, in April 1994. The Company launched its second product line, breathable membranes for the fresh-cut produce packaging market, in September 1995. To date, the Company has recognized \$1,349,000 in total QuickCast product and breathable membrane sales. The balance of revenues to date have resulted from license fees, collaborative arrangements and Small Business Innovative Research ("SBIR") government grants. The Company has been unprofitable since its inception and expects to incur additional losses, primarily due to the continuation of its research and development activities and expenditures necessary to further develop its manufacturing and marketing capabilities. From inception through April 30, 1996, the Company's accumulated deficit was \$28,655,000.

Results of Operations

Total revenues were \$1,275,000 for the second quarter of fiscal year 1996 compared to \$844,000 for the second quarter of fiscal year 1995. Revenues from product sales increased to \$281,000 in the second quarter of fiscal year 1996 from \$198,000 in the second quarter of fiscal year 1995 due primarily to the commencement of sales of breathable membrane products in late 1995. Revenues from license fees increased to \$600,000 for the second quarter of fiscal year 1996 from \$450,000 in the second quarter of fiscal year 1995. Revenues from research and development funding increased to \$394,000 for the second quarter of fiscal year 1996 from \$196,000 for the second quarter of fiscal year 1995. The increase in license fees and research and development revenue was due primarily to increased fees and funding under an expanded agreement with Nitta Corporation. For the first six months of fiscal year 1996 total revenues were \$1,694,000 compared to \$1,480,000 during the same period in 1995. Revenue from product sales for the first six months in fiscal year 1996 decreased to \$412,000 from \$441,000 during the same period in 1995 due to a decrease in sales of QuickCast products which more than offset the increase in sales of the breathable membrane products. Revenue from license fees for the first six months in fiscal year 1996 decreased to \$600,000 from \$650,000 during the same period in 1995. Revenue from research and development funding for the first six months in fiscal year 1996 increased to \$682,000 from \$389,000 during the same period in 1995 due to an increase in research and development contracts in fiscal year 1996. In March of 1996, the Company agreed to amend their research and development collaboration with BFGoodrich in the industrial latent curing area by removing the exclusivity restrictions. This change could result in a short-term reduction in research and development revenues that may be offset by other contract revenue.

Cost of product sales consists of material, labor and overhead. Cost of product sales was \$295,000 for the second quarter of fiscal year 1996 compared to \$327,000 for the second quarter of fiscal year 1995, a decrease of 10%. Cost of product sales as a percentage of product sales decreased to 105% in the second quarter of fiscal year 1996 from 165% in the second quarter of fiscal year 1995. Cost of product sales for the first six months of fiscal year 1996 was \$539,000 compared to \$652,000 during the same period in 1995, a decrease of 17%. Cost of

product sales as a percentage of product sales decreased to 131% for the first six months of fiscal year 1996 from 148% during the same period in 1995. These decreases in the cost of product sales was primarily the result of the ramp-up and increased volume of the breathable membrane product sales. The Company experienced negative gross margins for its products sales due to the early stage of commercialization of the Company's products and related product start-up costs. The Company anticipates that if revenues from product sales increases, gross margins will improve as the fixed portion of cost of product sales will be allocated over higher sales. Improvements in gross margins due to increased products sales, if any, may be offset in the future if the Company increases the fixed portion of cost of product sales. Due to the early stage of commercialization, however, the Company is unable to predict with any certainty future gross margins.

Research and development expenses were \$945,000 for the second quarter of fiscal year 1996 compared to \$921,000 for the second quarter of fiscal year 1995, an increase of 3%. For the first six months of fiscal year 1996 research and development expenses were \$1,898,000 compared to \$1,776,000 during the same period in 1995, an increase of 7%. Research and development expenses increased primarily as a result of increased development costs in the Company's latent curing products. In future periods, the Company expects that spending for research and development will continue to increase in absolute dollars, although it may vary as a percentage of total revenues.

Selling, general and administrative expenses were \$733,000 for the second quarter of fiscal year 1996 compared to \$538,000 for the second quarter of fiscal year 1995, an increase of 36%. For the first six months of fiscal year 1996 selling, general and administrative expenses were \$1,224,000 compared to \$1,045,000 during the same period in 1995, an increase of 17%. Selling, general and administrative expenses increased primarily as a result of increased sales and marketing expenses and the additional administrative costs associated with supporting a public company. Selling, general and administrative expenses consist primarily of sales and marketing expenses associated with the Company's product sales, business development expenses, staff and administrative expenses. Sales and marketing expenses increased to \$378,000 for the second quarter of fiscal year 1996 from \$222,000 for the second quarter of fiscal year 1995. For the first six months of fiscal year 1996 sales and marketing expenses increased to \$583,000 compared to \$436,000 during the same period in 1995. The increase in sales and marketing expenses was attributable to the costs to support the market introduction of the breathable membrane products launched in late fiscal year 1995 and the cost of launching two new national U.S. distributors for the QuickCast products in the second quarter of fiscal year 1996. The Company expects that selling, general and administrative spending will increase in future periods, although it may vary as a percentage of total revenues.

Net interest income for the second quarter and for the first six months of fiscal year 1996 was \$431,000 and \$452,000, respectively, as compared to \$28,000 and \$70,000 for the comparable periods in 1995. Net interest income increased due to interest income from the initial public offering proceeds.

Liquidity and Capital Resources

As of April 30, 1996 the Company had \$39,206,000 of cash, cash equivalents and short-term investments. On February 15, 1996 the Company completed an initial public offering of 2,800,000 shares of common stock at a price of \$12.00 per share. The net proceeds (after deducting underwriting discounts) to the Company from the initial public offering were approximately \$31.2 million. In March 1996, the Company received an additional \$4.7 million in net proceeds resulting from the exercise of the underwriters' overallotment option.

During the six months ended April 30, 1996 and 1995, Landec used cash in operations of \$1,068,000 and \$1,672,000, respectively. This decrease in cash used in operations was due primarily to the increase in interest income from the initial public offering proceeds. The Company believes that existing cash, cash equivalents and short-term investments, including the proceeds from the initial public offering, will be sufficient to finance its operational and capital requirements through at least fiscal 1997. The Company's future capital requirements, however, depend on numerous factors, including the progress of its research and development programs; the development of commercial scale manufacturing capabilities; the development of marketing, sales and distribution capabilities; the ability of the Company to maintain existing collaborative arrangements and establish and maintain new collaborative arrangements; payments received under research and development agreements; the costs involved in preparing, filing, prosecuting, defending and enforcing intellectual property rights; complying with regulatory requirements; competing technological and market developments; 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, are not sufficient to satisfy its financing needs, the Company would be required to seek additional funding through other arrangements with collaborative partners, bank borrowings and public or private sales of its securities. The Company has no credit facility or other committed sources of capital. There can be no assurance that additional funds, if required, will be available to the Company on favorable terms.

Additional Factors That May Affect Future Results

The Company desires to take advantage of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995. Specifically, the Company wishes to alert readers that the following important factors, as well as other factors, could in the future affect, and in the past have affected, the Company's actual results and could cause the Company's results for future quarters to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company.

History of Operating Losses and Accumulated Deficit. The Company has incurred net losses in each year since its inception, including net losses of approximately \$914,000 and \$267,000 during the second quarter of fiscal year 1995 and 1996, respectively, and the Company's accumulated deficit as of April 30, 1996 totaled \$28,655,000. The Company expects to incur additional losses for the foreseeable future. The amount of future net losses and time required by the Company to reach profitability are highly uncertain.

Early Commercialization; Dependence on New Products and Technologies; Uncertainty of Market Acceptance. While the Company recently commenced marketing certain of its products, it is in the early stage of product commercialization and many of its potential products are in development. The Company believes that its future success will depend in large part on its ability to develop and market new products in its target markets and in new markets. In particular, the Company expects that its ability to compete effectively with existing industrial, food packaging, medical and agricultural companies will depend substantially on successfully developing, commercializing, achieving market acceptance of and reducing the cost of producing the Company's products. In addition, commercial applications of the Company's temperature switch polymer technology are relatively new and evolving. There can be no assurance that the Company will be able to successfully develop, commercialize, achieve market acceptance of or reduce the cost of producing the Company's products, or that the Company's competitors will not develop competing technologies that are less expensive or otherwise superior to those of the Company. There can be no assurance that the Company will be able to develop and introduce new products and technologies in a timely manner or that new products and technologies will gain market acceptance. The failure to develop and market successfully new products could have a material adverse effect on the Company's business, operating results and financial condition.

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

Dependence on Collaborative Partners. The Company's strategy for the development, clinical and field testing, manufacturing, commercialization and marketing of certain of its current and future products includes entering into various collaborations with corporate partners, licensees and others. To date, the Company has entered into collaborative arrangements with The BFGoodrich Company ("BFGoodrich") and Hitachi Chemical Co., Ltd. ("Hitachi Chemical") in connection with its latent curing catalyst systems, Fresh Express Incorporated ("Fresh Express") in connection with its breathable membrane products, Nitta Corporation ("Nitta") and Hitachi Chemical in connection with its adhesive products and Smith & Nephew Medical Limited ("Smith & Nephew") in connection with its QuickCast orthopedic products. The Company is dependent on its corporate partners to develop, test, manufacture and/or market certain of its products. Although the Company believes that its partners in these collaborations have an economic motivation to succeed in performing their contractual responsibilities, the

amount and timing of resources to be devoted to these activities are not within the control of the Company. A significant portion of Landec's revenues to date have been derived from commercial research and development collaborations and license agreements. In the second quarter of fiscal year 1996, development funding from these collaborative arrangements comprised approximately 78% of the Company's total revenues. Development funding and license fees from product sales to BFGoodrich, Hitachi Chemical, Nitta and Smith & Nephew represented approximately 69% of the Company's revenues for the second quarter of fiscal year 1996. Moreover, research and development revenue and license fees from Nitta accounted for a significant portion of the Company's total revenues for the second quarter of fiscal year 1996. There can be no assurance that such partners will perform their obligations as expected or that the Company will derive any additional revenue from such arrangements. There can be no assurance that the Company's partners will pay any additional option or license fees to the Company or that they will develop and market any products under the agreements. Moreover, certain of the collaborative agreements provide that they may be terminated at the discretion of the corporate partner, and certain of the collaborative agreements provide for termination under certain circumstances.

In March of 1996, the Company agreed to amend their research and development collaboration with BFGoodrich in the industrial latent curing area by removing the exclusivity restrictions. This amendment will allow Landec to explore direct distribution and other licensing and product development opportunities while continuing the collaboration with BFGoodrich on a non-exclusive basis. This change could result in a short-term reduction in research and development revenues.

There can be no assurance that the partners will not pursue existing or alternative technologies in preference to the Company's technology. Furthermore, there can be no assurance that the Company will be able to negotiate additional collaborative arrangements in the future on acceptable terms, if at all, or that such collaborative arrangements will be successful. To the extent that the Company chooses not to or is unable to establish such arrangements, it would experience increased capital requirements to undertake research, development, manufacture, marketing or sale of its current and future products in such markets. There can be no assurance that the Company will be able to independently develop, manufacture, market, or sell its current and future products in the absence of such collaborative agreements.

Competition and Technological Change. The Company operates in highly competitive and rapidly evolving fields, and new developments are expected to continue at a rapid pace. Competition from large industrial, food packaging, medical and agricultural companies is expected to be intense. In addition, the nature of the Company's collaborative arrangements may result in its corporate partners becoming competitors of the Company. Many of these competitors have substantially greater financial and technical resources and production and marketing capabilities than the Company, and may have substantially greater experience in conducting clinical and field trials, obtaining regulatory approvals and manufacturing and marketing commercial products. There can be no assurance that these competitors will not succeed in developing alternative technologies and products that are more effective, easier to use or less expensive than those which have been or are being developed by the Company or that would render the Company's technology and products obsolete and non-competitive.

Limited Manufacturing Experience; Dependence on Third Parties. The Company's success is dependent in part upon its ability to manufacture its products in commercial quantities in compliance with regulatory requirements and at acceptable costs. There can be no assurance that the Company will be able to achieve this. The Company has experienced negative gross margins for its product sales to date. The Company intends to build or acquire large-scale polymer manufacturing and formulations facilities by 1998. Production in commercial-scale quantities may involve technical challenges for the Company. Establishing its own manufacturing capabilities would require significant scale-up expenses and additions to facilities and personnel. The Company may also consider seeking collaborative arrangements with other companies to manufacture certain of its products. If the Company is dependent upon third parties for the manufacture of its products, then the Company's profit margins and its ability to develop and deliver such products on a timely basis may be adversely affected. Moreover, there can be no assurance that such parties will adequately perform and any failures by third parties may delay the submission of products for regulatory approval, impair the Company's ability to deliver products on a timely basis, or otherwise impair the Company's competitive position. The occurrence of any of these factors could have a material adverse effect on the Company's business, operating results and financial condition. The manufacture of the Company's products will be subject to periodic inspection by regulatory authorities. There can be no assurance that the Company will be able to obtain necessary regulatory approvals on a timely basis or at all. Delays in receipt

of or failure to receive such approvals or loss of previously received approvals would have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Single Source Suppliers. Many of the raw materials used in manufacturing certain of the Company's products are currently purchased from a single source, including certain monomers used to synthesize Intelimer polymers and substrate materials for the Company's breathable membrane products. Upon manufacturing scale-up, the Company may enter into alternative supply arrangements. Although to date the Company has not experienced difficulty acquiring materials for the manufacture of its products, 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 its products and, consequently, could materially and adversely affect the Company's business, operating results and financial condition.

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. There can be no assurance that any pending patent applications will be approved, that the Company will develop additional proprietary products that are patentable, that any patents issued to the Company will provide the Company with competitive advantages or will not be challenged by any third parties or that the patents of others will not prevent the commercialization of products incorporating the Company's technology. The Company has received, and may in the future receive, from third parties, including some of its competitors, notices claiming that it is infringing third party patents or other proprietary rights. For example, the Company recently received a letter alleging that the Company's breathable membrane product infringes patents of another party. The Company has investigated this matter and believes that its breathable membrane product does not infringe the specified patents of such party. The Company has received an opinion of patent counsel that the breathable membrane product does not infringe any valid claims of such patents. 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. 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. Litigation, which could result in substantial costs to and diversion of effort by the Company, may also be necessary to enforce any patents issued or licensed to the Company or to determine the scope and validity of third-party proprietary rights. Any such litigation or interference proceeding, regardless of outcome, could be expensive and time consuming and could subject the Company to significant liabilities to third parties, require disputed rights to be licensed from third parties or require the Company to cease using such technology and, consequently, could have a material adverse effect on the Company's business, operating results and financial condition.

Government Regulation. The Company's products and operations are subject to substantial regulation in the United States and foreign countries. Although Landec believes that it will be able to comply with all applicable regulations regarding the manufacture and sale of its products and polymer materials, such regulations are always subject to change and depend heavily on administrative interpretations and the country in which the products are sold. There can be no assurance that future changes in regulations or interpretations relating to such matters as safe working conditions, laboratory and manufacturing practices, environmental controls, and disposal of hazardous or potentially hazardous substances will not adversely effect the Company's business. There can be no assurance that the Company will not be required to incur significant costs to comply with such laws and regulations in the future, or that such laws or regulations will not have a material adverse effect on the Company's business, operating results and financial condition. Failure to comply with the applicable regulatory requirements can, among other things, result in fines, injunctions, civil penalties, suspensions or withdrawal of regulatory approvals, product recalls, product seizures, including cessation of manufacturing and sales, operating restrictions and criminal prosecution.

Limited Sales or Marketing Experience. The Company has only limited experience marketing and selling its products. While the Company intends to distribute certain of its products through its corporate partners and other distributors, the Company intends to sell certain other products through a direct sales force. Establishing sufficient marketing and sales capability may require significant resources. There can be no assurance that the Company will be able to recruit and retain skilled sales management, direct salespersons or distributors, or that the Company's sales efforts will be successful. The Company is currently in the process of changing its distribution

approach with respect to the QuickCast product line in the United States to include several national distributors. To the extent that the Company enters into distribution arrangements for the sale of its products, the Company will be dependent on the efforts of third parties. There can be no assurance that such efforts will be successful.

International Operations and Sales. In the second quarter of the fiscal year 1995 and 1996, approximately 66% of the Company's total revenues were derived from product sales to and collaborative agreements with international customers, and the Company expects that international revenues will continue to account for a significant portion of its total revenues. A number of risks are inherent in international transactions. International sales and operations may be limited or disrupted by the regulatory approval process, government controls, export license requirements, political instability, price controls, trade restrictions, changes in tariffs or difficulties in staffing and managing international operations. Foreign regulatory agencies have or may establish product standards different from those in the United States, and any inability to obtain foreign regulatory approvals on a timely basis could have an adverse effect on the Company's international business and its financial condition and results of operations. While the Company's foreign sales are priced in dollars, fluctuations in currency exchange rates may reduce the demand for the Company's products by increasing the price of the Company's products in the currency of the countries to which the products are sold. There can be no assurance that regulatory, geopolitical and other factors will not adversely impact the Company's operations in the future or require the Company to modify its current business practices.

Quarterly Fluctuations in Operating Results. The Company's results of operations have varied significantly from quarter to quarter. Quarterly operating results will depend upon several factors, including the timing and amount of expenses associated with expanding the Company's operations, the timing of collaborative agreements with, and performance of, potential partners, the timing of regulatory approvals and new product introductions, the mix between pilot production of new products and full-scale manufacturing of existing products and the mix between domestic and export sales. In addition, the Company cannot predict rates of licensing fees and royalties received from its partners or ordering rates by its distributors, some of which place infrequent stocking orders, while others order at regular intervals. As a result of these and other factors, the Company expects to continue to experience significant fluctuations in quarterly operating results, and there can be no assurance that the Company will become or remain consistently profitable in the future.

Product Liability Exposure and Availability of Insurance. The testing, manufacturing, marketing, and sale of the products being developed by the Company involve an inherent risk of allegations of product liability. While no product liability claims have been made against the Company to date, if any such claims were made and adverse judgments obtained, they could have a material adverse effect on the Company's business, financial condition and results of operations. Although the Company has taken and intends to continue to take what it believes are appropriate precautions to minimize exposure to product liability claims, there can be no assurance that it will avoid significant liability. The Company currently maintains product liability insurance in the amount of \$1.0 million per claim with an annual aggregate limit of \$2.0 million. There can be no assurance that such coverage is adequate or will continue to be available at an acceptable cost, if at all. A product liability claim, product recall or other claim with respect to uninsured liabilities or in excess of insured liabilities could have a material adverse effect on the Company's business, operating results and financial condition.

No Prior Public Market; Possible Volatility of Stock Price. Factors such as announcements of technological innovations, the attainment of (or failure to attain) milestones in the commercialization of the Company's technology, new products, new patents or changes in existing patents, or development of new, collaborative arrangements by the Company, its competitors or other parties, as well as government regulations, investor perception of the Company, fluctuations in the Company's operating results and general market conditions in the industry may cause the market price of the Company's Common Stock to fluctuate significantly. In addition, the stock market in general has recently experienced extreme price and volume fluctuations, which have particularly affected the market prices of technology companies and which have been unrelated to the operating performance of such companies. These broad fluctuations may adversely effect the market price of the Company's Common Stock.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

None.

Item 3. Defaults in Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

10.12+ Agreement dated February 26, 1996 between the Registrant and Nitta Corporation.

10.13 Letter dated March 29, 1996 regarding the Agreement dated as of July 29, 1995 between the Registrant and BFGoodrich Company.

11.1 Computation of loss per share (see Note 1 to Financial Information in Part I of this Form 10-Q).

(b) Reports on Form 8-K.

None.

+CONFIDENTIAL TREATMENT REQUESTED.

SIGNATURES

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

LANDEC CORPORATION

By: /s/ JOY T. FRY

Joy T. Fry
Vice President, Finance and Administration
and Chief Financial Officer
(Duly Authorized and Principal Financial and
Accounting Officer)

Date: June 7, 1996

LANDEC CORPORATION

INDEX TO EXHIBITS

Exhibit Number	Exhibit	Sequentially Numbered Page
10.12+	Agreement dated February 26, 1996 between the Registrant and Nitta Corporation.	17
10.13	Letter dated March 29, 1996 regarding the Agreement dated as of July 29, 1995 between the Registrant and BFGoodrich Company.	31
11.1	Statement Regarding Computation of Net Loss Per Share	32
27	Financial Data Schedule	33

+CONFIDENTIAL TREATMENT REQUESTED.

AGREEMENT

THIS AGREEMENT is made and entered into this Twenty-sixth (26th) day of February, 1996 by and between LANDEC CORPORATION, a corporation of California, having its principal place of business at 3603 Haven Avenue, Menlo Park, California 94025, U.S.A. (hereinafter called "LANDEC") and NITTA CORPORATION, a corporation of Japan, having its principal place of business at 8-12. Hommachi 1-chome. Chuo-ku. Osaka. 541. Japan (hereinafter called "NITTA"),

WITNESSETH:

WHEREAS, LANDEC is engaged in development, manufacture, use and sale of Adhesives and owns and controls patents and know-how therefor; and

WHEREAS, NITTA is engaged in development, manufacture and sale of chemicals including adhesives and other industrial products and possesses experience in connection therewith; and

WHEREAS, NITTA desires to manufacture and sell products made using LANDEC's know-how and/or patents and LANDEC is willing to grant a right and license thereto to NITTA.

NOW, THEREFORE, in consideration of the mutual covenants and premises contained herein, both parties have agreed as follows:

1 ARTICLE 1 DEFINITIONS

1.1 The following terms as used herein shall have the meanings set forth below:

1.1.1 "Adhesives" shall mean temperature sensitive adhesives containing side-chain crystallizable polymer, which shall include LANDEC's proprietary adhesives such as XXXXXXXXXX XXXXXXXXXXXXXXXX Adhesives as explained in detail in Appendix 1 hereof.

1.1.2 "Patents" shall mean those patents and patent applications listed in Appendix 2 and patents issuing from the patent applications listed in Appendix 2 and any patents covering new improvements to the Licensed Technology and within the claims of the patents listed in Appendix 2, provided such improvement is invented by LANDEC while NITTA is funding R&D at LANDEC or paying royalties to LANDEC pursuant to Article 4.

1.1.3 "Know-How" shall mean any and all technology, trade secrets, non-patented improvements and other confidential information relating to processes, compositions, fabrications, manufacturing, scale-up and uses of the Adhesives which LANDEC owns or controls and has the right to freely dispose of while NITTA is funding R&D at LANDEC or paying royalties to LANDEC pursuant to Article 4.

1.1.4 "Licensed Technology" shall mean Patents and/or Know-How.

1.1.5 "Subject Adhesives" shall mean the Adhesives incorporating, made with or using all or part of Licensed Technology.

1.1.6 "Territory" shall mean Asian countries as listed in Appendix 3.

1

XXX = CONFIDENTIAL TREATMENT REQUESTED

1.1.7 "Field" shall mean medical applications of Subject Adhesives in the following product categories which are defined in Appendix 4:

- | | |
|----------------------------|---------------------------|
| * XXXXXXXXXXXXXXXXXXXXXXXX | * XXXXXXXXXXXXXXX |
| * XXXXXXXXXXXXXXXXXXXXXXXX | * XXXXXXXXXXXXXXXXXXXXXXX |
| * XXXXXXXXXXXXXXX | * XXXXXXXXXXXXXXXXXXXXXXX |
| * XXXXXXXXXXXXXXX | * XXXXXXXXXXXXXXXXXXXXXXX |
| * XXXXXXXXXXXXXXX | * XXXXXXXXXXXXXXXXXXXXXXX |
| * XXXXXXXXXXXXXXXXXXXXXXX | * XXXXXXXXXXXXXXXXXXXXXXX |
| * XXXXXXXXXXXXXXXXXXXXXXX | * XXXXXXXXXXXXXXXXXXXXXXX |

Other product categories will be added by mutual consent. The parties will discuss inclusion or exclusion of any product regarding which there is uncertainty as to its being in the Field.

1.1.8 "Products" shall mean:

(i) Subject Adhesives themselves which are sold by NITTA in unincorporated form or consumed by NITTA in manufacturing NITTA products such that the properties and benefits of Subject Adhesives are not evident to customer;

(ii) Tapes, films, coated substrates and other products incorporating Subject Adhesives such that the Subject Adhesives add value to the product and the user directly receives the benefits of Subject

Adhesives; and

(iii) Tapes, films, coated substrates and other products incorporating Subject Adhesives which are sold in conjunction with components or parts which components or parts have significant intrinsic value to the customer.

(iv) Adhesive coated intermediates (semi-finished goods, coated substrates in sheets or rolls) incorporating Subject Adhesives which are sold to customers who will convert such intermediates into final products.

1.1.9 "NITTA's Subsidiaries" shall mean the corporations of which NITTA or the NITTA family owns fifty percent (50%) or more of the outstanding stock.

1.1.10 "Net Sales" shall mean the gross invoice price of the Products less i) credits for products returned, quantity and other discounts, and ii) charges for packaging, shipping, insurance, and sales taxes which are separately identified and invoiced and paid by the customer.

1.1.11 "Fair Market Value" shall mean the net invoice price of the Products which NITTA would receive from an unaffiliated third party in an arm's length sale of the Products of the same type and grade in the same quantity and at the same time and place of use or sale.

1.1.12 "Effective Date" shall mean the date and year upon which this Agreement is executed.

1.1.13 "Commercial Launch" shall mean the date when the accumulated Net Sales and Fair Market Value shall reach XXXXXXXXXXXX Japanese Yen ((Y)XXXXXXXXXX).

1.1.14 Development Program shall have the meaning put forth in Article 3.

2 ARTICLE 2 GRANT OF LICENSES

2.1 In accordance with the provisions provided herein, LANDEC grants to NITTA an exclusive license under the Licensed Technology within the Field to make and have made Subject Adhesives in the Territory.

2.2 LANDEC also grants to NITTA an exclusive license under the Licensed Technology within the Field to use and sell Subject Adhesives in the Territory.

2.3 NITTA shall have the right to grant sublicenses to NITTA's Subsidiaries with prior written notice to LANDEC and on the condition that NITTA agrees to guarantee such NITTA Subsidiaries' fulfillment of the obligation under this Agreement.

2.4 NITTA shall not nor shall NITTA allow its distributors or its customers to resell or transfer the Subject Adhesives themselves knowingly in unincorporated form outside the Territory, or in forms such that the user who resides outside the Territory is able to directly utilize the Subject Adhesives benefits and properties.

2.5 NITTA will have the right to use subcontractors to perform adhesive coating and other conversion processes on NITTA's behalf as long as such subcontractors agree to comply with the Confidentiality provisions set forth in Article 10 of this Agreement.

3 THE DEVELOPMENT PROGRAM

3.1 LANDEC and NITTA anticipate the need for LANDEC to provide assistance and support to NITTA's research and development regarding the Subject Adhesives. Within fourteen (14) days after the Effective Date, the Parties will mutually agree on a written Development Program. The "Development Program" shall mean work performed jointly or independently by LANDEC and NITTA pursuant to Article 3. Such work shall be funded by NITTA as set forth in Article 3.2 and shall encompass the following:

i) Research and development regarding Subject Adhesives for applications in the Field as well as for industrial applications of Subject Adhesive which were licensed to NITTA in a prior agreement dated March 14, 1995 for which development support has been provided by LANDEC since January 1, 1996;

ii) Polymer synthesis, adhesive formulation and coating of substrates by LANDEC; and

iii) Testing, polymer scale-up and manufacture of Products by NITTA.

LANDEC agrees to provide NITTA with reasonable quantities of research sample polymers and pilot scale coated samples at no additional charge as part of the Development Program. The amount of such samples shall be mutually agreed in the Development Program.

3.2 NITTA shall provide LANDEC with funding for the amount of the Development Program at the rate of XXXXXXXXXXXX dollars (\$XXXXX) per year for the first XXXX years after the Effective Date reflecting XXXX man-years per year at LANDEC's annual cost-per-scientist of XXXXXXXXXXXXXXXXXXXX dollars (\$XXXXX). Such funding shall be made in two installments of XXXXXXXXXXXXXXXXXXXX dollars (\$XXXXX) each. The first such installment shall be paid to LANDEC within fourteen (14) days of the Effective Date and shall be retroactive to January 1, 1996. The second installment shall be paid on January 1, 1997.

4 ARTICLE 4 COMPENSATION

4.1 In consideration of the rights and licenses granted hereunder, and in addition to the funding set forth in Article 3.2, NITTA shall pay to LANDEC a non-refundable sum of XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX U.S. Dollars (U.S. \$XXXXXX) (not to be less than U.S. \$XXXXXX net after deduction of the Japanese withholding taxes) as an initial fee under this Agreement.

4.2 NITTA shall also pay to LANDEC a running royalty at the rate of XXXX percent (XX%) of Net Sales of Products when sold to third parties other than NITTA's Subsidiaries and NITTA, or of Fair Market Value when used by NITTA or sold to NITTA's Subsidiaries or NITTA. Such royalty on Products shall be payable until XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX or XXXXXXXX years from Commercial Launch of such Product, whichever is longer.

4.3 For the sale of any Product in a given calendar year the manufacture, use or sale of which does not come within the scope of any licensed Patent in the country in which such Product is manufactured, used or sold, LANDEC agrees to discuss with NITTA a XXXXXXXXXXXXXXXXXXXX in such country based on the XXXXXXXXXXXXXXXXXXXX as measured by XXXXXXXXXXXXXXXXXXXX.

5 ARTICLE 5 PAYMENTS AND REPORTS

5.1 Payment of initial fee in accordance with Article 4.1 shall be made within XXXXXXXXXXXX days after the Effective Date of this Agreement.

5.2 Payments of running royalty shall be made quarterly within XXXX days after the end of each calendar quarter each year for the Products sold or used during the applicable calendar quarter. The last running royalty payment hereunder shall be made within XXXXXXX days from the termination date hereof, and the Products made during the term of this Agreement but remaining unsold or unused at its termination shall be deemed to have been sold on the last day of the term of this Agreement and the running royalty shall be paid on such Products in accordance with this Article 5.

5.3 All the payments to be made to LANDEC hereunder shall be net after deducting withholding taxes to be imposed by the tax authority of Japan at the rate specified by the government authority, and NITTA shall send LANDEC appropriate tax certificates issued by the tax authority of Japan on such withholding taxes.

5.4 The payments due under Articles 3, 4 and this Article 5 hereof shall be made to LANDEC by telegraphic transfer in U.S. Dollars to the bank account designated by LANDEC. The running royalties due under Articles 5.3 hereof shall be initially calculated in the currency used in the sales of the Products or the currency of the country where the Products are used, and then converted into U.S. dollars at the prevailing rate of exchange as used by Sakura, Sanwa or Tokai Banks on the day on which the respective payments are made.

5.5 NITTA shall pay to LANDEC interest calculated at the rate of one and one-half percent (1.5%) per month for the days of delay from the due date on any payment not received by LANDEC on the due date.

5.6 Within sixty (60) days from the last day of each calendar quarter respectively of each year, NITTA shall prepare and send to LANDEC a written statement showing in detail the production, sale and use of Products and the royalty amounts to be paid for the applicable calendar quarter.

6 ARTICLE 6 INSPECTION OF ACCOUNTS

6.1 NITTA shall keep true and accurate records and books of account, in accordance with generally accepted accounting principles, containing all the data reasonably required for the full computation and verification of the running royalty payable under Article 5 in connection with any Product hereof for three (3) years after the sale or use of such Product. NITTA shall permit LANDEC or a certified public accountant designated by LANDEC and approved by NITTA (but whose approval shall not unreasonably withheld) upon reasonable notice to inspect any or all parts of such records and books of account and to make copies thereof at normal business hours during the term of this Agreement and within three (3) years after the termination thereof. LANDEC shall bear the expenses associated with such inspection, except in the case that such inspection reveals underpayment of royalties by greater than 5% in which case NITTA shall reimburse LANDEC for the expenses associated with the inspection.

7 ARTICLE 7 GRANT-BACK

7.1 NITTA grants to LANDEC a XXXXXXXXXXXXXXXXXXXX license to utilize NITTA's XXXXXXXXXXXXXXXXXXXX (i) XXXXXXXXXXXXXXXXXXXX and (ii) XXXXXXXXXXXXXXXXXXXX.

7.2 NITTA grants to LANDEC an XXXXXXXXXX license with the XXXXXXXXXX XXXXXXXXXX to utilize NITTA's patented and non-patented (know-how) improvements to Licensed Technology XXXXXXXXXX. The royalty will be XXXX percent (XX%) of LANDEC's net sales of products using such patented improvements.

8 ARTICLE 8 MEETINGS

8.1 NITTA and LANDEC will meet at least twice per year to discuss technical and commercial progress and information exchange relating to the Licensed Technology in the initial period of two (2) years after the Effective Date during the term of this Agreement at the expense of each respective party and may meet at any time both of the parties should so desire and agree during the remaining term of this Agreement.

9 ARTICLE 9 SUPPLY OF SUBJECT ADHESIVES

9.1 If NITTA decides in the future not to manufacture Subject Adhesives, NITTA will give LANDEC the first opportunity to be NITTA's supplier. If LANDEC is supplying Subject Adhesives to NITTA, the parties will negotiate the method of payment such that a single method of paying royalties and supply payments is used.

10 ARTICLE 10 SECRECY OBSERVANCE

10.1 Except as expressly set forth in 2.3 and 7.2, any Know-How to be exchanged hereunder between LANDEC and NITTA shall be only for the recipient's use for the purpose of this Agreement, and the recipient shall keep such information in strict confidence during the term of this Agreement and for three (3) years thereafter and shall not disclose the same to any third parties, provided, however, such obligations shall not apply if the recipient can provide documented proof that:

10.1.1 Such information already is known to the recipient at the time of the disclosure by the disclosing party to the recipient.

10.1.2 Such information had already been made public and entered the public domain at the time of disclosure by the disclosing party to the recipient; or has become public and entered the public domain since the time of disclosure by the disclosing party to the recipient without any cause attributable to the recipient;

10.1.3 Such information has been lawfully obtained by the recipient since the time of disclosure by the disclosing party to the recipient from a third party under no obligation of secrecy to the disclosing party;

10.1.4 Such information has been independently acquired or developed by the recipient without reference to any information disclosed by the disclosing party hereunder since the time of disclosure by the disclosing party to the recipient; or

10.1.5 Such information has been disclosed by the disclosing party to any third party without any obligation of secrecy.

11 ARTICLE 11 BANKRUPTCY

11.1 The parties acknowledge that the license rights granted to NITTA in Licensed Technology are protected by Section 365 (n) of the U.S. Bankruptcy Code. In the event that any bankruptcy court rejects this Agreement, NITTA will have the right to exercise all rights provided by Section 365 (n) including the right to require the trustee to deliver to NITTA all tangible embodiments of all Licensed Technology pertaining to the Subject Adhesives.

12 ARTICLE 12 TERMINATION

12.1 This Agreement shall become effective as of the Effective Date. NITTA shall have the right to terminate this Agreement with 90 days written notice to LANDEC.

12.2 In case when this Agreement should expire in accordance with Article 4.2, NITTA then shall have a fully paid up perpetual right to utilize Licensed Technology as to such Product.

12.3 NITTA shall make a reasonable effort to commercialize the Products. If NITTA has not launched a Product containing or utilizing any of the Subject Adhesives in all countries within the Territory within five (5) years after the Effective Date of this Agreement, the Parties shall negotiate a modification to the Territories such that NITTA's license hereunder with respect to countries in which no product has been launched or royalty has been paid shall become non-exclusive or revoked.

12.4 Either party may terminate this Agreement by written notice of its intention to terminate on a date therein specified not less than thirty (30) days after the date of giving such notice, if the other party shall:

12.4.1 be in default in the performance of any of the provisions of this Agreement on its part to be performed and shall fail to remedy or correct such default within thirty (30) days after the receipt of such notice from the other party specifying the event of default; or

12.4.2 become insolvent or go into liquidation or receivership or be admitted to the benefits of any procedure for the settlement of debt or be declared bankrupt or be dissolved.

No such termination shall affect any right accrued at the time of termination or discharge the defaulting party from any liability then existing to the other party, provided, however, that (i) if NITTA is the party whose default, insolvency, liquidation or receivership has caused such termination then NITTA shall not have any right or license to use specifically identified trade secrets and the Licensed Technology (with the exception of Know-How) after the termination of this Agreement, or (ii) if LANDEC is the party whose default, insolvency, liquidation or receivership has caused such termination then LANDEC shall not have any right or license to use NITTA's specifically identified trade secrets and patented improvements to the

Licensed Technology (with the exception of know-how) pursuant to Article 7 hereof after the termination of this Agreement.

12.5 Notwithstanding the other provisions of this Article 12, the provisions of Articles 3, 4, 5, 6.1, 7 (only to the extent that patented and non-patented improvements have already been granted to LANDEC and for which LANDEC is paying a royalty to NITTA), 10, 12.2, 12.5, 13.1, 17.1, 18.1, 19.1 and 21 shall survive the termination or expiration of this Agreement.

13 ARTICLE 13 WARRANTY

13.1 LANDEC HEREBY REPRESENTS AND WARRANTS THAT (WITH THE EXCEPTION OF INFORMATION LISTED IN APPENDIX 5) AS OF THE EFFECTIVE DATE IT IS NOT CURRENTLY AWARE OF ANY THIRD PARTY PATENT OR PATENTS WHICH WOULD BE INFRINGED BY THE MANUFACTURE, USE OR SALE OF SUBJECT ADHESIVES. EXCEPT AS SET FORTH IN THE PRECEDING SENTENCE, LANDEC MAKES NO REPRESENTATION OR WARRANTY THAT THE MANUFACTURE, USE OR SALE OF ANY SUBJECT ADHESIVES OR PRODUCTS BY NITTA DOES NOT INFRINGE ANY PATENT OR INTELLECTUAL PROPERTY RIGHT HELD BY THE THIRD PARTIES, AND LANDEC SPECIFICALLY DISCLAIMS ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. NITTA shall indemnify and hold LANDEC harmless from any claim, liability, expense or damages arising from NITTA's manufacture, use, sale or other disposition of the Products.

14 INFRINGEMENT OF PATENTS

14.1 Notification of Infringement. Each party shall advise the other promptly upon its becoming aware of any third party infringement of a Patent.

14.2 Action by Landec. Landec agrees, within reasonable business judgment and at its own discretion, to promptly take such action as is required to restrain such infringement. NITTA shall cooperate fully with LANDEC at NITTA's expense in LANDEC's attempt to restrain such infringers. NITTA may be represented by counsel of its own selection at its own expense at any suit or proceeding brought by LANDEC to restrain such infringement provided that such representation of NITTA shall be subject to LANDEC's overall control of such suit or proceeding. LANDEC shall bear the expense of its prosecution of any such suit or suits and shall obtain all benefits of the recoveries from such suit or suits, whether by judgment, award, decree or settlement.

14.3 Action by NITTA. If within sixty (60) days of NITTA's advising LANDEC of a third party infringement of a licensed patent in any Field in which NITTA then has a license to operate under this Agreement, Landec fails to institute an infringement suit that NITTA feels is reasonably required, NITTA shall have the right, at its own discretion, within thirty (30) days thereafter, to institute an action for infringement. It is agreed that in such event NITTA can institute any such suit in the names of both parties to this Agreement and that NITTA shall bear the expense of any such suit or suits and shall obtain all of the benefits of the recoveries from such suit or suits, whether by judgment, award, decree or settlement. Should NITTA bring any such suit, LANDEC shall cooperate in all reasonable ways with NITTA in any such suit or suits at LANDEC's expense. LANDEC may be represented by counsel of its own selection at its own expense.

14.4 Mutual Action. Notwithstanding Articles 14.1 and 14.2, if the parties agree to mutually share expenses and to pursue an infringement suit together, they shall (a) share in any and all benefits in the recovery from such suit, whether by judgment, award, decree or settlement, and (b) agree on the lead plaintiff, selection of counsel and other litigation strategy matters.

15 INFRINGEMENT OF THIRD PARTY INTELLECTUAL PROPERTY RIGHTS

In the event that (i) NITTA's use as set forth in this Agreement of any item or information transferred or licensed under this Agreement (including, without limitation, the Patents or Licensed Technology) is held by a court of competent jurisdiction to infringe any patent or other intellectual property rights of any other party, and (ii) such infringement prevents NITTA from selling Products as contemplated hereunder, then after a final, non-appealable judgment or settlement has been reached and only to the extent that NITTA is required to pay royalties to a third party, NITTA shall offset against future royalties under this Agreement derived from the country or jurisdiction of such Action any future royalties that NITTA is obligated to pay to any third party. NITTA shall be responsible for, and shall not offset damages awarded by a court or any license fees negotiated with the other party.

Notwithstanding any credits or offsets to the contrary, NITTA will pay at least XXXXX percent (XX%) of the royalties which would otherwise be payable to LANDEC under this Agreement.

NITTA shall be entitled to credit the amount of its documented, reasonable out-of-pocket litigation costs paid by NITTA to third parties, including attorneys' fees, as a result of any such action hereunder against royalties derived from the country or jurisdiction of such action due to LANDEC under this Agreement. NITTA agrees that royalties payable to LANDEC hereunder which are not a subject of such action, such as, for example, Net Sales derived from other countries shall be paid directly to LANDEC without any credits and shall not be delayed or otherwise affected by such suit or action.

If as a result of any action, NITTA is the recipient of an award, settlement or license fee, or royalty, XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

16 ARTICLE 16 ASSIGNMENT

16.1 This Agreement or any rights or obligations hereunder may not be assigned or transferred by either of the parties without prior written consent of the other party, provided, however, such consent shall not be unreasonably withheld. This Agreement will bind and inure to the benefit of the parties and their respective successors and permitted assigns.

17 ARTICLE 17 NOTICES

17.1 Any notice made or required hereunder shall be deemed sufficiently given if made by registered mail (or its equivalent), or by telefax or telex and confirmed by registered mail, properly addressed and sent to the recipient at its designated address. All notices shall be deemed to have been sent on the registered date and to have been received on the tenth (10th) business day thereafter or when actually received, whichever is sooner. For purposes hereof, the designated addresses of the parties shall be the addresses set forth below or at such other address as such party shall have last designated by a writing delivered to and received by the party giving notice. If to NITTA: Mr. Takuji Watanabe, General Manager of R&D, NITTA Corp., 172 Ikezawa-cho, Yamato Kohriyama-shi, Japan. If to LANDEC: Mr. Steven James, Vice President of Business and Market Development, LANDEC Corporation, 3603 Haven Avenue, Menlo Park, California 94025-1010, U.S.A.

18 ARTICLE 18 FORCE MAJEURE

18.1 Neither of the parties shall be liable for failure of performing its obligation hereunder (except for payment of money) due to riot, act of God, war, fire, flood, invasion, earthquake, epidemic, interruption of transportation, embargo, explosion, strike, lockout or other labor troubles or any other causes similar to the foregoing which are beyond the reasonable control of the party and the performance of obligation hereunder shall be suspended during, but no longer than, the existence of such cause.

19 ARTICLE 19 GOVERNING LAW

19.1 This Agreement will be governed by and construed in accordance with the laws of the State of California applicable to agreements entered into, and to be performed entirely, within California between California residents and without reference to conflict of laws principles.

20 ARTICLE 20 SETTLEMENT OF DISPUTES

20.1 Prior to the initiation of any litigation or other proceeding, the parties will negotiate in good faith to resolve any dispute between them regarding the Agreement. If such negotiations do not resolve the dispute to the satisfaction of both parties, then the President of LANDEC and the appropriate Executive Vice President of NITTA shall use their best efforts to resolve the dispute prior to the initiation of any other proceeding. If they are unable to, the dispute shall be finally settled by binding arbitration in Honolulu, Hawaii under the Rules of Arbitration of the International Chamber of Commerce Court of Arbitration, by one mutually acceptable arbitrator appointed in accordance with said Rules. Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitral proceedings and all pleadings and written evidence shall be in the English language. Any written evidence originally in a language other than English shall be submitted in English translation accompanied by the original or true copy thereof.

21 ARTICLE 21 MISCELLANEOUS

21.1 The waiver, express or implied, by either party of any right hereunder or any failure to perform this Agreement or breach hereof by the party, shall not constitute or be deemed as a waiver of any other right hereunder or of any other failure to perform this Agreement or breach hereof by such other party, whether of a similar or dissimilar nature hereto.

21.2 If any article of this Agreement should be held unenforceable or in conflict with the laws of any jurisdiction, the validity of the remaining parts or articles shall continue to be valid, and both parties shall negotiate in good faith to replace such unenforceable or conflicting part(s) or articles(s) with a valid part(s) or article(s).

21.3 This Agreement contains the entire agreement and understanding between the parties and merges and supersedes all prior discussions and writings with respect to the subject matter hereof.

21.4 No modification or alteration of this Agreement shall be effective unless they are made in writing and signed by duly authorized representatives of both parties.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in duplicate by the duly authorized representatives of each party as of the day and year first above written.

LANDEC CORPORATION

NITTA CORPORATION

By: Mr. Gary T. Steele
Title: President and CEO

By: Mr. Tetsushi Saito
Title: Executive Vice President

APPENDIX 2

LANDEC Licensed Patents

U.S.A.	XXXXX	XXXXX
USP 5,156,911 Skin-Activated Temperature Sensitive Adhesive Assemblies Issued on 10/20/92 Filed on 5/11/89	XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXX XXXXXXXXXXXXXXXXXXXX	XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX
USP 5,387,450 Temperature-Activated Adhesive Assemblies Issued on 2/7/95 Filed on 2/27/92	No Corresponding XXXXXXXX Patent Application	No Corresponding XXXXXXXX Patent Application
USP 5,412,035 Pressure-Sensitive Adhesives Issued on 5/2/95 Filed on 8/12/92	XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXX	No Corresponding XXXXXXXX Patent Application
USP (Pending) XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXX	XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXX	No Corresponding XXXXXXXX Patent Application

APPENDIX 3

List of Asian Countries

1. XXXXXXXXX
2. XXXXX
3. XXXXXXXXX
4. XXXXX
5. XXXXXXXXXXXXXXXXXXXXX
6. XXXXXXXXX
7. XXXXXXXXXXXXXXXXXXXXX
8. XXXXXXXXX
9. XXXXXXXXX
10. XXXXX
11. XXXXXXXXX
12. XXXXXXXXX

The names listed above are for convenience only. The term, Asia, as used in this Agreement, relates to the territories encompassed by the above countries as of the date of this Agreement.

APPENDIX 5

Exceptions to Article 13 Warranty

1. XXXXXXXXXXXXXXXXXXXX patent application XXXXXXXX (which has been opposed in XXXX by LANDEC with assistance from NITTA).
2. XXXXXXXXXXXXXXXXXXXXXXXXXXXX patent application XXXXXXXX and XXXXXXXX.

BFGoodrich
Specialty Chemicals

BFGoodrich Specialty Chemicals
9911 Brecksville Road
Cleveland, Ohio 44141-3247
800-331-1144
216-447-7579
Division
FAX 216-447-5760

Thomas M. Holleran
Vice President
and General Manager
Industrial Specialties

March 29, 1995

Mr. David Taft
Landec Corporation
3603 Haven Avenue
Menlo Park, CA 94025-1010

Dear David:

The purpose of this letter is to confirm recent discussions that BFGoodrich is exercising its option to become a non-exclusive licensee according to the terms of our agreement, dated July 29, 1995.

Our decision to become a non-exclusive licensee is not a decision to abandon the project, and we look forward to Landec's continued cooperation as we seek opportunities for BFGoodrich to enjoy a return from this investment.

I will address the questions raised in your March 19, 1996 letter regarding mutual expectations in a non-exclusive relationship under separate cover.

Sincerely,

Thomas M. Holleran
Vice President & General Manager

TMH/mas

LANDEC CORPORATION

STATEMENT REGARDING COMPUTATION OF NET LOSS PER SHARE
(In thousands, except per share data)

	Three Months Ended April 30, 1996	Ended April 30, 1995	Six Months Ended April 30, 1996	Ended April 30, 1995
	-----	-----	-----	-----
Net Loss	\$ (267)	\$ (914)	\$ (1,515)	\$ (1,923)
	=====	=====	=====	=====
Shares used in calculating net loss per share:				
Weighted average shares of common stock outstanding	8,874	542	4,713	541
SEC Staff Accounting Bulletin Topic 4D	-	640	-	640
	-----	-----	-----	-----
Total shares used in calculating net loss per share	8,874	1,182	4,713	1,181
	=====	=====	=====	=====
Net loss per share	\$ (0.03)	\$ (0.77)	\$ (0.32)	\$ (1.63)
	=====	=====	=====	=====
Shares used in calculating supplemental net loss per share:				
Weighted average shares of common stock outstanding	8,874	542	4,713	541
Weighted average shares of the assumed conversion of preferred stock and promissory notes from the date of issuance	1,142	6,553	3,996	6,519
	-----	-----	-----	-----
Total shares used in calculating supplemental net loss per share	10,016	7,095	8,709	7,060
	=====	=====	=====	=====
Supplemental net loss per share	\$ (0.03)	\$ (0.13)	\$ (0.17)	\$ (0.27)
	=====	=====	=====	=====

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1,000

6-MOS
OCT-31-1996

FEB-01-1996

APR-30-1996

20,181

19,025

136

(73)

508

40,014

3,071

2,084

41,124

1,564

0

68,130

0

0

(29,018)

41,124

412

1,694

539

2,437

0

0

54

(1,515)

0

(1,515)

0

0

0

(1,515)

(0.32)

(0.32)