

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended October 31, 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 94-3025618
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification Number)

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

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

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

Title of each class	Name of each exchange on which registered
----- None	----- None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value \$0.001 per share
(Title of Class)

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 the past 90 days.

Yes X No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 505 of Regulation S-K is not contained herein, and will 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. [X]

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$58,635,000 as of January 8, 1997, based upon the closing sales price on the NASDAQ National 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 in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares outstanding of the registrant's common stock, as of January 8, 1997, 10,765,267 shares of common stock, par value \$0.001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement pursuant to Regulation 14A, which statement will be filed not later than 120 days after the end of the fiscal year covered by this report, are incorporated by reference in Part III hereof.

LANDEC CORPORATION
ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. Business

Except for the historical information contained herein, the matters discussed in this document are forward-looking statements that involve certain risks and uncertainties, including the risks and uncertainties discussed below.

General

Landec Corporation ("Landec" or the "Company") designs, develops, manufactures and sells temperature-activated polymer products for a variety of industrial, medical and agricultural applications. The Company's products are based on its proprietary Intelimer(R) polymers, which differ from other polymers in that they can be customized to abruptly change their physical characteristics when heated or cooled through a pre-set temperature switch. For instance, Intelimer polymers can change within the space of one or two degrees Celsius from a slick, 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 state. These abrupt changes are repeatedly reversible and can be tailored by Landec to occur at specific temperatures, thereby offering substantial competitive advantages in the Company's target markets. The Company believes its enabling Intelimer technology provides for differentiated, high-value products that address a wide variety of applications in large, commercial markets.

The Company has launched and is marketing its first two product lines. The first product line, QuickCast(TM) splints and casts, was launched in the United States in mid-1994 and in Europe and selected Asian countries through its partner Smith & Nephew Medical Limited ("Smith & Nephew") in the fall of 1994. The Company introduced its second product line, Intellipac(TM) breathable membranes for use in fresh-cut produce packaging, in the fall of 1995.

The Company is developing and intends to launch additional products during 1997 and 1998. Products under development include: Intelimer polymer systems for use with industrial coatings, adhesives, sealants and composites; temperature-activated, pressure-sensitive adhesives; PORT(TM) ophthalmic devices for the treatment of dry eye; and Intellicoat(TM) agricultural seed coatings. The Company is developing products in collaboration with or for sale to Physician Sales & Services, Inc. ("Physician Sales & Services"), North Coast Medical, Inc. ("North Coast Medical"), Sammons Preston, Inc. ("Sammons Preston"), Fresh Express Farms ("Fresh Express"), Printpack, Inc. ("Printpack"), Hitachi Chemical Co., Ltd. ("Hitachi"), The BFGoodrich Company ("BFGoodrich"), and Nitta Corporation ("Nitta").

The Company was incorporated in California on October 31, 1986. The Company's principal executive offices are located at 3603 Haven Avenue, Menlo Park, California 94025 and its telephone number is (415) 306-1650.

Technology Overview

Polymers are important and versatile materials found in many of the products of modern life. Man-made polymers include nylon fibers used in carpeting and clothing, coatings such as paints and finishes, plastics such as polyethylene, and elastomers used in automobile tires and latex gloves. Natural polymers include cellulose and natural rubber. Historically, synthetic polymers have been designed and developed primarily for improved mechanical and physical properties, such as strength and the ability to withstand high temperatures. Improvements in these and other properties and the ease of manufacturing of synthetic polymers over the last 40 years have allowed these materials to replace wood, metal and natural fibers in many applications. More recently, scientists have focused their efforts on identifying and developing sophisticated polymers with novel properties for a variety of commercial applications.

Landec's Intelimer polymers are a proprietary class of synthetic polymeric materials that respond to temperature changes in a controllable, predictable way. Typically, polymers gradually change in adhesion, permeability and viscosity over broad temperature ranges. Landec's Intelimer materials, in

contrast, can be designed to exhibit abrupt changes in permeability, adhesion and/or viscosity over temperature ranges as narrow as 1(Degree)C to 2(Degree)C. These changes can be designed to occur at relatively low temperatures (0(Degree)C to 100(Degree)C) that fall within temperature ranges compatible with most biological applications. Figure 1 illustrates the effect of temperature on Intelimer materials as compared to typical polymers.

[GRAPHIC OMITTED]

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 use of chemically precise hydrocarbon side chains that are attached to a polymer backbone. Below a pre-determined switch temperature, the polymer's side chains align through weak hydrophobic interactions resulting in a crystalline structure. When this side chain crystallizable polymer is heated to, or above, this switch temperature, these interactions are disrupted and the polymer is transformed into an amorphous, viscous state. Because this transformation involves a physical and not a chemical change, this process is repeatedly reversible. Landec can set the polymer switch temperature anywhere between 0(Degree)C to 100(Degree)C by varying the length of the side chains. The reversible transitions between crystalline and amorphous states are illustrated in Figure 2 below.

[GRAPHIC OMITTED]

Side chain crystallizable polymers were first discovered by academic researchers in the mid-1950's. These polymers were initially considered to be merely of scientific curiosity from a polymer physics perspective, and, to the Company's knowledge, no significant commercial applications were pursued. In the mid-1980's, Dr. Ray Stewart, the Company's founder, became interested in the idea of using the temperature-activated permeability properties of these polymers to deliver various materials such as drugs and pesticides. After forming Landec in 1986, Dr. Stewart subsequently discovered broader utility of these polymers. After several years of basic research, commercial development efforts began in the early 1990's, resulting in initial products in mid-1994.

Landec's Intelimer materials are generally synthesized from long chain acrylic monomers that are derived primarily from natural materials such as soybean and corn oils, and are highly purifiable and designed to be manufactured economically through known polymerization processes. Intelimer materials can be made into many different forms, including films, coatings, microcapsules and plugs.

Business Strategy

Landec's objective is to become the leader in temperature-activated specialty polymer products by capitalizing on its enabling Intelimer technology. The principal elements of Landec's strategy to achieve this objective are (i) to select commercially attractive product opportunities, (ii) to leverage established distribution channels through distribution agreements or corporate partnerships with market leaders and (iii) to fully exploit the Intelimer technology by retaining an economic interest in joint ventures, spinouts and other vehicles created by the Company to develop non-core applications of the Company's technology.

Product Selection

The Company believes that its Intelimer technology has the potential to reach a broad range of markets beyond the current scope of the Company's resources. As a result, the Company seeks to commercialize selected Intelimer-based products that exhibit the following characteristics:

Large, Established, Growing Markets. The Company focuses on supplying products to established, growing markets with a minimum of \$500 million to \$2 billion in annual, world-wide sales and the potential to further expand due to Landec's products.

Attractive Margins/Low Capital Intensity. Landec develops products that it believes can generate attractive margins when competitively priced. In addition, the Company generally focuses on products which can be developed, manufactured and marketed without large capital investments.

Significant Unmet Market Needs. Landec seeks to use its temperature switch technology to develop differentiated products that address significant market needs not fulfilled by existing products on the market. The Company intends to develop new products with substantial functional benefits relative to existing products that are designed to gain market acceptance more readily and to be sold at attractive price levels.

Strong Proprietary Position. Landec seeks to develop products that fall within, and can expand, the Company's proprietary position. Currently, Landec has eight issued patents and numerous additional patent applications covering methods, compositions and applications of Landec's Intelimer technology. In addition, the Company has developed considerable technological know-how, trade secrets and registered trademarks in order to establish a broad proprietary position in the market.

Minimal Regulatory Risk. Landec generally selects products that are not likely to undergo lengthy regulatory review processes that could both increase costs and substantially delay commercialization. For example, the Company is targeting medical products that can obtain FDA clearance through filing a 510(k) notification, rather than products that must be submitted under the substantially longer PMA process.

Established Distribution Channels

With respect to product commercialization, Landec's strategy is to establish distribution arrangements or corporate partnerships with market leaders. The Company currently is collaborating with and intends to sell products to Hitachi and Nitta in the industrial polymers area. The Company also has distribution agreements in the splint and casting area in the U.S. with Physician Sales & Services, a large national distributor of doctor-office products and North Coast Medical and Sammons Preston, companies focused on the physical and occupational therapy markets. In certain highly focused markets, such as the fresh-cut produce market, Landec markets products through its own sales force. The Company believes that this approach will allow it to focus its resources on further development of products based on its Intelimer materials while leveraging the established sales and marketing organizations of its partners.

Joint Ventures and Spinouts

Another aspect of Landec's strategy is to fully exploit the commercial applications of the Company's Intelimer technology by retaining an economic interest in joint ventures, spinouts and other vehicles created by the Company to develop non-core applications of the Company's technology. For instance, the Company believes that its seed coating business represents a large commercial opportunity that will require substantial management time to develop. Therefore, Landec established a subsidiary, Intellicoat Corporation ("Intellicoat"), in 1995 and hired a president and chief executive officer, Thomas Crowley, in November 1996 to develop the seed coating business. The Company believes that commercialization of certain products outside of Landec will enable the Company to better leverage its resources and more successfully exploit the potential of its internal programs while retaining an economic interest in Intelimer-based products.

Products

The Company is developing products based on its Intelimer technology in three product areas: industrial membranes and polymers, medical devices and agricultural seed coatings. The Company currently has two product lines on the market and expects to introduce additional product lines during 1997. The following table sets forth the Company's current product areas, their principal applications, the attribute of the Intelimer materials utilized by the product, the commercial status of the products and corporate partners.

Product Area	Principal Applications	Intelimer Materials Attribute	Status	Corporate Partners
Industrial Membranes and Polymers				
Intellipac Breathable Membranes	Fresh-cut Produce Packaging	Permeability	On Market	Fresh Express Printpack
Intelimer Polymer Systems	Epoxy and Other Thermosets	Permeability	Field Trials	BFGoodrich Hitachi
Adhesives	Industrial Uses	Adhesion	In Development	Hitachi Nitta
	Medical Uses	Adhesion	In Development	Nitta
Medical Devices				
QuickCast Orthopedics	Splints and Casts	Viscosity	On Market	Smith & Nephew Physician Sales & Services North Coast Medical Sammons Preston
PORT Ophthalmic Devices	Dry Eye Contact Lens Wear	Viscosity	Clinical Trials	--
		Viscosity	In Development	--
Agricultural Seed Coatings				
Intelliccoat Coatings	Corn, Soybean, Canola, Cotton and Sugarbeet	Permeability	Field Trials	--

Industrial Membranes and Polymers

The Company's main focus is on industrial applications for its Intelimer materials. To date, these products consist of Intellipac breathable membranes, Intelimer polymer systems and adhesives.

Intellipac Breathable Membranes

Landec began marketing its Intelimer-based breathable membranes for use in fresh-cut produce packaging in September 1995. Certain types of fresh-cut produce can spoil or discolor rapidly when packaged in conventional materials and therefore are not widely available for commercial sale. The Company believes its Intellipac breathable membranes facilitate the packaging of these types of produce.

Fresh-cut produce is pre-washed, cut and packaged in a form that is ready to use by the consumer and is thus typically sold at premium price levels. According to the International Fresh Cut Produce Association ("IFPA"), sales of fresh-cut salads were estimated to be \$82 million in 1989 and increased to \$600 million in 1994. The Company believes that this growth has been driven by consumer demand and willingness to pay for convenience. In addition, many institutional food suppliers purchase fresh-cut produce due to its greater convenience and uniform quality relative to produce prepared at the point of sale.

Although fresh-cut produce companies have had success in the salad market, the industry has been slow to expand to other fresh-cut vegetables or fruits due to limitations in the conventional materials used to package the cut produce. After harvesting, vegetables and fruits continue to respire, consuming oxygen and releasing carbon dioxide. Too much or too little oxygen can result in premature spoilage and decay and/or the growth of harmful bacteria. Conventional packaging films used today, such as polyethylene and polypropylene, can be made somewhat permeable to oxygen and carbon dioxide, but often do not allow for the optimal atmospheric needs of the produce. In addition to having poor permeability characteristics, these current packages often have less than desirable strength, clarity, aesthetics and durability. These shortcomings have not significantly hindered the growth in the fresh-cut salad market because lettuce, unlike many other vegetables and fruits, respire relatively slowly and can tolerate less than optimal packaging.

The respiration rate of fresh-cut produce varies from vegetable to vegetable and from fruit to fruit. The challenge facing the industry is to develop packaging for a wide variety of fruits and vegetables that can automatically adjust the transmission rates of oxygen and carbon dioxide. Today's conventional packaging films are not able to adjust to meet the varying needs of different vegetables and fruits. To mirror the growth experienced in the fresh-cut salad market, the markets for high respiring vegetables and fruits such as broccoli, cauliflower, melons and stone fruit (peaches, apricots, nectarines) require a better packaging solution.

The respiration rate of fresh-cut produce also varies with fluctuations in temperature. As temperature increases, fresh-cut produce generally respire at a higher rate, which speeds up the decaying process, reduces the shelf life of the produce and increases the potential for the growth of harmful bacteria. As fresh-cut produce is transported from the processing plant through multiple distribution steps to the food service or retail store location, and finally to the ultimate consumer, temperatures can fluctuate significantly. Therefore, managing the "cold-chain," or the refrigerated environment, throughout the distribution process presents a significant challenge and cost factor. The Company believes that conventional food packaging films are unable to adjust to changes in temperature that exist in the fresh-cut produce distribution process.

Using its Intellimer technology, Landec has developed and is developing Intellipac breathable membranes that it believes address many of the shortcomings of conventional materials. A membrane is applied over a small cut-out section of a standard bag. This highly permeable window acts as a breathable "valve" supplying most, if not all, of the gas transmission properties of the entire package. These membranes can be designed with the following characteristics:

- o Super Permeability. Landec's Intellipac breathable membranes are designed to permit transmission of oxygen and carbon dioxide at several thousand times the rate of conventional packaging films. These higher permeability levels facilitate the packaging of many types of fresh-cut produce.
- o Ability to Selectively Transmit Oxygen and Carbon Dioxide. Landec's Intellipac breathable membranes are designed to selectively permit the transmission of oxygen and carbon dioxide at two separate rates that can create a more optimal environment for the produce.
- o Temperature Responsiveness. Landec is developing breathable membranes that can be designed to increase or decrease in permeability in response to environmental temperature changes. The Company is developing Intellipac breathable membranes with permeability characteristics tailored to mimic the changes in respiration rate that are brought on by changes in temperature for specific vegetables and fruits.

Landec launched its first Intellipac breathable membrane, a label for fresh-cut broccoli packages, in September 1995. This membrane incorporates super permeability and selective oxygen and carbon-dioxide transmission capabilities, but not temperature responsiveness. The Company launched a second Intellipac breathable membrane for fresh-cut cauliflower in June 1996. The Company intends to

introduce additional membranes tailored for different types of vegetables during 1997. Further membranes may incorporate temperature responsiveness.

The Company believes it can facilitate the packaging of high respiring produce such as broccoli, cauliflower and fruit with its Intellipac breathable membranes, thus addressing currently unmet market needs. These breathable membranes also enable producers to select packaging films that are more cost effective, easier to process (e.g. stronger, clearer, printable) and more aesthetically pleasing to consumers. With the proprietary Intelimer polymer temperature switch, Landec's Intellipac breathable membranes could also provide protection against breaks in the cold chain, thereby extending shelf life and product quality and protecting against the growth of harmful bacteria.

Landec believes that growth of the overall produce market will be driven by the increasing demand for the convenience of fresh-cut produce as well as by expansion of the number of produce products that may be effectively packaged. The Company believes that in the future its Intellipac breathable membranes may be useful for packaging a wide range of fresh-cut produce products. According to the IFPA, sales of fresh-cut produce, which in 1994 represented 9% of the total produce market, are projected to increase to 25% of the total produce market by 1999. Potential opportunities for using Landec's technology outside of the fresh-cut produce market exist in cut flowers and in other food products.

In January 1995, Landec entered into a non-exclusive supply agreement with Fresh Express, the market leader in fresh-cut salad. Under this agreement, Fresh Express is initially purchasing Landec's Intellipac breathable membranes for fresh-cut produce sold to the institutional food service market. In June 1996, Landec entered into a co-development and marketing agreement with Printpack, which specializes in flexible packaging for the food industry. Under this agreement, Landec and Printpack will focus on developing integrated membrane/film products for low cost, high-throughput, fresh-cut produce market applications such as retail packaging using Landec's proprietary membrane technology and Printpack's large-scale printing and film covering expertise.

Landec manufactures its Intellipac breathable membranes in-house and with selected outside contract manufacturers and markets Intellipac breathable membranes to the limited number of large fresh-cut produce suppliers through its own sales force.

Intelimer Polymer Systems

The Company is developing and currently conducting field trials of a catalyst system incorporating its Intelimer polymer technology for industrial thermoset applications. Thermosets are plastics that, through a curing process, undergo a chemical reaction to form a structure that cannot be reshaped through heating. For example, epoxy glue is a thermoset. The majority of thermosets are configured in "two-package" systems in which one or more resins are packaged separately from a curing agent catalyst. When the catalyst is mixed with the resin, the thermoset materials cure, or "set." The period of time after the two components are mixed until the mixture has doubled in viscosity is referred to as its "pot life."

Epoxy, polyurethanes and unsaturated polyesters represent three significant classes of thermosets. According to the January 1995 edition of Modern Plastics, a trade publication, the U.S. market in 1994 for epoxy, polyurethane and unsaturated polyester thermoset products was 0.6 billion pounds, 3.8 billion pounds and 1.5 billion pounds, respectively, and the Company believes that the world-wide market size is approximately double the U.S. market size. Because of their hardness and corrosion resistant properties, epoxy thermosets are widely used in surface coatings for industrial primers and maintenance finishes, in fiber-reinforced composites for printed circuit boards and in high performance adhesives in value-added automotive and aerospace applications. Polyurethane thermosets consist of a variety of flexible and rigid foam materials essential for in-place insulation (e.g., for refrigeration applications), molded automobile bumpers, mattresses and furniture cushions and automotive seating. Polyurethane coatings are also used for abrasion resistance in floor finishing and durability in transportation and aerospace applications. Unsaturated polyesters, a third thermoset category, are fast-curing with excellent hardness characteristics and are primarily used as fiberglass-reinforced

composites. Principal applications for unsaturated polyesters are housing construction (shower modules, bathtub and sink constructions), marine construction (boats) and transportation products (truck bodies and panels and automotive trim).

Two-package thermoset systems suffer from a number of drawbacks. These systems require extensive mixing equipment to ensure proper mixing ratios to provide expected product performance at the time of use. The thermoset resins and catalysts must be kept in separate packages until the time of use to prevent them from pre-reacting with each other. A finite pot life results in significant waste when the thermoset reacts or cures prior to application. Two-package thermoset systems frequently result in limited control of reaction time (the time between the initiation and completion of the curing process) causing incomplete mold fills and waste. While a limited number of currently available single package thermoset systems offer the potential for addressing many of these drawbacks, these systems typically must be refrigerated to prevent curing, must be used very quickly once activated and/or must be cured at very high temperatures. These limitations have hindered market acceptance of these systems.

The Company is developing catalyst systems based on its Intelimer technology for use in one-package thermoset systems. These systems can incorporate catalysts, accelerators and curing agents in a way that prevents interaction by these agents with the resin while the polymer is in its impermeable state. This characteristic allows all components of the Intelimer thermoset to be pre-mixed and have a longer shelf life. For example, some Landec thermoset systems are storage-stable for up to one year. Landec's one-package system can be designed with a pre-set temperature switch to correspond with elevated temperatures applied during standard manufacturing processes. When the thermoset is exposed to the pre-set switch temperature, the Intelimer polymer abruptly changes to its permeable state, exposing the catalyst to the resin and initiating the curing process. In addition, the Intelimer polymer can be designed to change state over a predetermined temperature range in order to achieve a desired reaction time.

The Company believes that its thermoset catalyst systems will eliminate the need for costly on-site mixing equipment and, because thermosets can be pre-mixed by the manufacturer, will minimize sub-optimal product performance due to incorrect component mixing ratios. Furthermore, since the thermosets will not cure until exposed to elevated temperatures, pot life should be extended, resulting in significantly reduced waste and labor expense. The Company believes that the ability to control reaction time also provides advantages over existing thermoset systems.

Landec is targeting epoxies for its first thermoset catalyst system because epoxies are typically used in high-value industrial applications, such as in the electronic, aerospace and automotive industries. In addition, epoxies are generally used in applications involving elevated temperature curing; consequently, curing an epoxy thermoset using the Company's product would not add steps to the end-user's production process. The Company believes that this product will also have broad applicability for use with polyurethane and unsaturated polyester thermosets.

The Company's thermoset catalyst systems address the different drawbacks of existing epoxy, polyurethane and unsaturated polyester thermoset systems. Shelf life is the most significant limitation for epoxy systems. Polyurethane systems are often used in applications for which reaction time is critical. Currently available unsaturated polyester systems exhibit significant drawbacks in both shelf life and pot life. The Company believes its one-package catalyst systems address the main limitations in each of these types of thermoset systems.

Thermoset Market Opportunity

Area	1994 U.S. Market (Lbs.)*	Typical Application	Landec Benefits
Epoxies	602 million	Adhesives and coatings for electronics, auto and aerospace	<ul style="list-style-type: none"> o Improved shelf life o Pre-mixed formulas o Lower cost of labor and waste
Polyurethanes	3,755 million	Foams for auto, aerospace and furniture. Coatings, adhesives and elastomers	<ul style="list-style-type: none"> o Controlled reaction times o Better mold filling o Lower cost of labor and waste
Unsaturated Polyesters	1,496 million	Composites and molded products for auto, boat and construction	<ul style="list-style-type: none"> o Improved pot life o Lower cost of labor and waste

*Source: Modern Plastics, January 1995

Landec has entered into licensing and distribution agreements for one-package thermoset catalyst systems exclusively with Hitachi and non-exclusively with BFGoodrich. Both of these companies are large specialty chemical companies with strengths in the electronics, automotive and aerospace markets for thermoset systems. BFGoodrich has in the past and Hitachi is currently sponsoring research and development activities with respect to Intelimer technology. The Company's agreement with Hitachi contemplates that Hitachi, upon successful completion of field testing, will purchase materials from Landec for resale or for incorporation into fully formulated products. Landec has retained manufacturing rights in both of these collaborations and has granted exclusive marketing rights in Asia to Hitachi and non-exclusive rights in the United States and other territories outside of Asia to BFGoodrich. See "Corporate Collaborations."

Adhesives

Landec is utilizing its Intelimer technology to develop temperature-activated, pressure-sensitive adhesive ("PSA") materials for industrial applications. PSA materials are used for applications such as adhering the component parts of silicon devices, applying automotive side moldings and trim, assembling appliances and adhering labels to various surfaces. According to Adhesives Age, the U.S. market for PSA industrial tape products was \$2.7 billion in 1994. Typically, the removal of PSA materials damages or tears the adhered surface and leaves a resin residue. To avoid tearing or resin residue, traditional removal methods involve the use of toxic solvents and/or labor-intensive washing steps.

The Company is developing PSA materials based on its Intelimer technology that have demonstrated the capability to have adhesion levels reduced by over 70% with cooling or heating. This capability can be used in a wide variety of applications to adhere metals, woods, composites and plastics to surfaces and then easily remove these materials with changes in temperature. For example, two surfaces that are adhered together using Landec's PSA materials during a silicon wafer mounting process for the production of electronic components can be easily separated without toxic solvents or multiple washing steps by running the bonded parts through a heating or cooling process.

Landec's PSA materials are currently in development. The Company entered into a non-exclusive license agreement with Hitachi in October 1994 and a co-exclusive license agreement with Nitta, a specialty materials company, in March 1995, both with a focus on industrial applications. These agreements provide Hitachi and Nitta with the right to manufacture and distribute Landec's adhesive products for industrial applications in Asia in exchange for license fees and royalties on future product sales. Landec has retained manufacturing and distribution rights elsewhere in the world. First commercial sales are expected to build on the strength of Landec's partners in the electronics and

automotive industries. The Company believes that additional growth opportunities for Landec's adhesives technology exist in medical applications. In February of 1996, the Company extended its agreement with Nitta to include exclusive rights for adhesive medical applications in Asia in return for license fees, research and development payments and royalties.

Medical Devices

In addition to industrial applications, the Company is currently developing or commercializing medical devices based on its Intelimer technology. These products consist of QuickCast splints and casts and PORT ophthalmic devices.

QuickCast Splints and Casts

Landec has developed and is currently marketing splints and casts incorporating its Intelimer polymer technology. According to Frost & Sullivan, a market research organization, the U.S. market for orthopedic soft goods and cast room products was estimated to be approximately \$818 million in 1994. The growth in the market for orthopedic soft goods and cast room products is being driven by a number of factors, including an increase in participation in sports and recreational activities and the aging of the U.S. population. In addition, the trend towards managed care has increased the need for cost-effective treatment. Managed care has also resulted in occupational and physical therapists, and primary care physicians and other non-specialists performing an increasing range of procedures, including the treatment of selected orthopedic injuries. The Company believes the simplicity of the application of its QuickCast splints and casts is especially attractive to non-specialists.

Traditional casting and splinting methods suffer from several drawbacks. Casts made from plaster of Paris or synthetic cast tape generally require specialized training. In addition, these casts require a "cast room," as the preparation and application of plaster of Paris or synthetic cast tape is messy. Traditional casts must also be cut off and replaced as the muscles in the casted limb atrophy or as a particular therapy procedure requires a new cast position. Splints using conventional thermoplastic sheets must be cut to conform to varying limb sizes. The nature of the materials used in traditional casts and splints make them difficult to properly conform to the patient's anatomy, resulting in the possibility of an incorrect cast or splint fit. In addition, the application of casts and splints are usually performed by two different groups of specialists. Casts are generally applied by orthopedic surgeons while splints are typically applied by occupational and physical therapists.

The Company's QuickCast splints and casts shrink to fit injured limbs upon the application of heat from a hair dryer. These splints and casts are made from an elastic fiberglass mesh coated with Landec's temperature-activated materials. This material is made into pre-formed tubular devices that are placed on injured hands, wrists, arms and legs. The heat from the hair dryer softens the polymer and allows the device to relax and conform to the patient's anatomy in approximately two minutes. QuickCast splints and casts are pliable when warm, allowing the clinician to mold and form the splint or cast and to reshrink or reposition the splints or casts as needed. Upon removal of the heat, the products cool and harden. The Company believes that QuickCast splints and casts provide the following advantages over traditional methods:

- o Help ensure a proper therapeutic cast or splint fit
- o Allow for easy removal of the splint or cast using scissors, as compared to the necessity of sawing off a plaster of Paris or synthetic cast
- o Allow for reheating, remolding or reshrinking to change the shape or position of the device as required by therapy or to accommodate a reduction in limb size due to muscle atrophy, reducing the wasteful discarding of casts and splints that can increase overall treatment costs
- o Enable primary care physicians and other non-specialists to perform both splinting and casting

- o Permit easy conversion of QuickCast casts to splints
- o Allow the cast to be applied in any exam room, physician office or rehabilitation facility or at the patient's bedside, thus eliminating the need for a special "cast room"

The QuickCast products received 510(k) clearance by the FDA in February 1994, and the Company commenced sales of QuickCast products to regional U.S. orthopedic distributors in April 1994. In early 1996, Landec entered into distribution relationships with Physician Sales & Services in the area of orthopedic and primary care physicians sales. Physician Sales & Services has over 700 sales representatives in 50 states. In addition, in 1996, Landec entered into non-exclusive distribution relationships with North Coast Medical and Sammons Preston, distributors of medical products to occupational and physical therapists. The addition of the distribution partners broadens the market access for the Company's QuickCast products. Outside of the United States, Smith & Nephew has been the exclusive distributor of Landec's heat-shrinkable casting and splinting products in approximately 25 countries. The Company anticipates that it will terminate its relationship with Smith & Nephew in early 1997 and, as a result, the Company is currently in the process of initiating distribution relationships with other independent distributors in selected countries. In addition, QuickCast products are sold through independent distributors in approximately nine other countries.

Landec received a 1995 R&D 100 Award in recognition of QuickCast's innovative features and benefits. This award is given annually by R&D Magazine to selected companies with new products that represent significant new innovations in America. Landec is working with leaders in orthopedics, primary care and rehabilitation to assist the Company in developing new product and application ideas. In early 1996, Landec introduced several QuickCast products for lower leg fractures and sprains, which complement the company's existing QuickCast product line for upper extremity fractures and sprains.

PORT Ophthalmic Device

Landec is developing a PORT (Punctal Occluder for the Retention of Tears) ophthalmic device that is designed to allow the eye to retain its natural tear fluids. The Company is targeting patients with a condition known as dry eye for the first PORT application. In patients suffering from dry eye, either the lacrimal gland produces an insufficient volume of tears or the lacrimal drainage duct clears the tears too quickly from the eye. Either condition may result in blurred vision, intolerance to bright light, grittiness, redness, burning and, in some cases, damage to the corneal surface.

Dry eye syndrome is a common yet poorly diagnosed condition that is estimated to affect 30 million Americans, primarily patients over 50 years of age. According to the American Academy of Ophthalmology, approximately 25% of the general population suffers from dry eye syndrome at some time. Approximately 7.5 million cases can be classified as severe or moderate. Landec is initially targeting this market. According to the Dry Eye and Tear Research Center, approximately 175,000 dry eye patients in the United States undergo some type of corrective procedure each year. The Company believes that the opportunity for dry eye products will expand due to factors such as increased physician awareness of dry eye, an aging population, poor air quality, improved and standardized diagnostic techniques, and recent changes allowing reimbursement for punctum plug procedures and products.

Existing methods for treating dry eye have significant drawbacks. Silicone punctum plugs often do not provide complete obstruction of the drainage duct and may not conform to the contours of a particular patient's drainage duct. In addition, punctum plugs either must be inserted deep into the drainage duct or rest at the top of the drainage duct, where they are susceptible to coming loose. Collagen plugs and artificial tear solutions offer only temporary relief. Laser surgery, which is used to close the drainage duct, is expensive and difficult to reverse.

Using the PORT product, a physician introduces Intelimer polymer into the lacrimal drainage duct in a fluid state where it quickly solidifies into a form-fitting, solid plug. Occlusion of the lacrimal drainage duct allows the patient to retain tear fluid. The Company has developed an applicator containing

sterile, solid Intelimer material that will transform into a flowable, viscous state when heated slightly above body temperature. A physician activates the battery powered PORT applicator that heats the Intelimer material, inserts the applicator tip directly into the locally anesthetized punctal eye opening of the lacrimal drainage duct and dispenses the Intelimer material. This entire treatment can be completed on an out-patient basis in five to ten minutes. Subsequently, if the physician believes that occlusion is no longer necessary, the PORT plug can be removed using a warm saline flush, which activates the temperature switch, causing the polymer to return to its viscous state and be flushed from the patient's drainage duct.

The Company has conducted animal tests to assess the safety of PORT plugs to treat dry eye patients by intentionally obstructing the eye's lacrimal drainage duct. Human clinical studies are currently underway in San Francisco and Boston where approximately 25 patients will be enrolled by the middle of fiscal year 1997. Subsequently, a larger multi-center study will be conducted with about 90 patients at some ten centers nationwide. The Company is currently in discussions regarding marketing rights with selected leading ophthalmic companies. The Company intends to retain manufacturing rights with respect to the PORT applicator.

The Company believes that PORT plugs will have additional ophthalmic applications beyond the dry eye market, including people who cannot wear contact lenses due to limited tear fluid retention, and patients receiving therapeutic drugs via eye drops that require longer retention in the eye.

Agricultural Seed Coatings

Landec has developed and is conducting field trials of its Intellicoat seed coating, an Intelimer-based agricultural material designed to increase crop yields and extend the crop planting window. These coatings are initially being applied to corn and soybean seeds. According to the U.S. Agricultural Statistics Board, the total planted acreage in 1994 in the United States was 79.2 million for corn and 61.9 million for soybean.

Currently, farmers are required to guess the proper time to plant seeds. If the seeds are planted too early, they may rot or suffer chilling injury due to the absorption of water at cold soil temperatures. If they are planted too late, the growing season may end prior to the plants reaching full maturity. In either case, the resulting crop yields are suboptimal. Moreover, the planting window can be fairly brief, requiring the farmer to focus almost exclusively on planting during this time. Seeds also germinate at different times due to variations in absorption of water, thus providing for variations in the growth rate of the crops.

The Company's Intellicoat seed coating prevents planted seeds from absorbing water when the ground temperature is below the coating's pre-set switch temperature. Intellicoat seed coatings are designed to enable coated seeds to be planted early without risk of chilling damage caused by the absorption of water at cold soil temperatures. As spring advances and soil temperatures rise to the pre-determined switch temperature, the polymer's permeability increases and the coated seeds absorb water and begin to germinate. The Company believes that Intellicoat seed coatings provide the following advantages:

- o More flexible timing for planting
- o Avoidance of chilling injury
- o Uniform germination and crop growth
- o Protection against harmful fungi

As a result, the Company believes that Intellicoat seed coatings offer the potential for significant improvements in crop yields.

In the seed industry, yield increases of 4% to 5% are considered significant because of their impact on per acre profitability. Field trials of Intellicoat seed coatings on corn and soybean crops during the past four years have resulted in yield increases of as much as 5% to 20%. The Company plans to initially develop seed coating products for corn and soybean markets for distribution through regional seed companies in the United States in parallel with continued field evaluations with global seed companies. The Company believes that with larger seed companies, an additional one to two years of field trials will be needed to support initiation of commercial sales. In addition, Intellicoat seed coatings are being independently tested by seed companies and universities. Future crops under consideration include cotton, canola, sugar beet and other vegetables.

Corporate Collaborations

The Company believes its technology has commercial potential in a wide range of industrial, medical and agricultural applications. In order to exploit these opportunities, the Company has entered into collaborative corporate agreements for product development and/or distribution in certain fields. The Company is currently engaged in discussions with potential new collaborative partners.

To date, the Company has entered into collaborative arrangements with BFGoodrich and Hitachi in connection with its Intelimer polymer systems, Fresh Express and Printpack in connection with its Intellipac breathable membrane products, Nitta and Hitachi in connection with its industrial adhesive products and Smith & Nephew, Physician Sales & Services, North Coast Medical and Sammons Preston 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 fiscal year 1996, development funding from these collaborative arrangements comprised approximately 62% of the Company's total revenues and in fiscal year 1995, comprised approximately 82% of the Company's revenues. Development funding and license fees from and product sales to Hitachi, BFGoodrich, Nitta, and Smith & Nephew represented approximately 65% and 91% of the Company's revenues for fiscal years 1996 and 1995, respectively. Moreover, research and development revenue and license fees from Hitachi and Nitta each accounted for more than 10% of the Company's revenues for fiscal years 1996 and 1995.

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. 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. See "Additional Factors That May Affect Future Results -- Dependence on Collaborative Partners".

Hitachi. The Company has entered into two separate collaborations with Hitachi in the areas of industrial adhesives and Intelimer polymer systems. On October 1, 1994, the Company entered into a non-exclusive license agreement with Hitachi in the industrial adhesives area. The agreement provides Hitachi with a non-exclusive license to manufacture and sell products using Landec's Intelimer materials

in certain Asian countries. Landec received up-front license fees upon signing the agreement and is entitled to future royalties based on net sales by Hitachi of the licensed products. Any fees paid to the Company are non-refundable.

On August 10, 1995, the Company entered into the second collaboration with Hitachi in the Intelimer polymer systems area. The agreement provides Hitachi with an exclusive license to use and sell Landec's Intelimer polymer systems in industrial latent curing products in certain Asian countries. Landec is entitled to be the exclusive supplier of Intelimer polymer systems to Hitachi for at least seven years. In addition, Hitachi also received limited options and rights for certain other technology applications in its Asian territory. Landec received an up-front license payment upon signing this agreement and is entitled to receive research and development funding over three years and future royalties based on net sales by Hitachi of the licensed products. Any fees paid to the Company are non-refundable. This agreement is terminable at Hitachi's option. In conjunction with this agreement, Hitachi purchased Series E Preferred Stock for \$1.5 million which converted to common stock on the Company's initial public offering.

BFGoodrich. On October 13, 1993, the Company entered into a collaboration with BFGoodrich. On March 29, 1996, the Company and BFGoodrich decided to amend their license, development and manufacturing agreement to a non-exclusive agreement. The agreement provides BFGoodrich with a non-exclusive worldwide (excluding Asia) license to use and sell Landec's Intelimer polymer systems in industrial latent curing products. Landec is entitled to be the exclusive supplier of Intelimer polymer systems to BFGoodrich during the term of the agreement. BFGoodrich must meet certain requirements to maintain non-exclusive rights to fields of use. Landec received an up-front license payment upon signing and additional license fees upon achieving certain milestones. Under the agreement, development was funded by BFGoodrich for several years and such funding was terminated as a result of the amended agreement. The Company is also entitled to receive future royalties based on net sales by BFGoodrich of the licensed products. Fees paid to the Company were non-refundable. This agreement is terminable at BFGoodrich's option.

Nitta. On March 14, 1995, the Company entered into a license agreement with Nitta in the industrial adhesives area. The agreement provides Nitta with a co-exclusive license to manufacture and sell products using Landec's Intelimer materials in certain Asian countries. Landec received up-front license fees upon signing the agreement and is entitled to future royalties based on net sales by Nitta of the licensed products. Any fees paid to the Company are non-refundable. In addition, Nitta also received limited options for certain other technology applications in its Asian territory. This agreement is terminable at Nitta's option. Nitta and the Company entered into an additional exclusive license arrangement in February, 1996 covering Landec's medical adhesives technology for use in Asia. The Company received up-front license fees upon execution of the agreement and is entitled to receive research and development payments and royalties under this agreement. Any fees paid to the Company are non-refundable.

Fresh Express. On January 18, 1995, the Company entered into a non-exclusive supply agreement with Fresh Express. Fresh Express collaborates with the Company in biological product testing. Fresh Express has the right to become a non-exclusive customer for certain future products.

Printpack. On June 21, 1996, the Company entered into an exclusive co-development and marketing agreement with Printpack. Under the agreement, Landec and Printpack will focus on developing integrated membrane film products for low cost, high-throughput, fresh-cut product market applications, such as retail packaging, using Landec's proprietary Intellipac breathable membrane technology and Printpack's large-scale printing and film converting expertise.

Smith & Nephew. On September 30, 1994, the Company entered into an exclusive distribution agreement with Smith & Nephew for QuickCast products in certain European and Pacific Rim countries, Canada and South Africa. Products distributed under this agreement are sold under Smith & Nephew's "Dynacast*Rapide" tradename. As discussed above, the Company anticipates that it will terminate this relationship in early 1997.

Physician Sales & Services. On March 18, 1996, the Company entered into a distribution agreement with Physician Sales & Services for QuickCast orthopedic and splinting products. Under this agreement, Physician Sales & Services is granted exclusive rights to distribute such products in the United States to primary care physicians and co-exclusive rights to distribute such products in the United States to orthopedic surgeons, cast technicians and physician assistants. There are more than 83,000 primary care physicians in the United States.

North Coast Medical. On January 3, 1996, the Company entered into a distribution agreement with North Coast Medical for QuickCast orthopedic and splinting products. Under the agreement, North Coast Medical is granted non-exclusive rights to distribute such products in the United States to the occupational and physical therapy market.

Sammons Preston. On June 18, 1996, the Company entered into a distribution agreement with Sammons Preston for QuickCast orthopedic and splinting products. Under the agreement, Sammons Preston is granted non-exclusive rights to distribute such products in the United States to the occupational and physical therapy market.

Sales and Marketing

The Company's products fall into two groups: those intended to be marketed and sold by the Company and those expected to be marketed by distributors and corporate partners. The Company intends to provide technical support for all of its products, irrespective of the sales and marketing channel of a particular product. With respect to the Company's Intellipac breathable membrane products, the Company has entered into a non-exclusive supply agreement with Fresh Express. Since there are a limited number of suppliers of fresh-cut produce, the Company believes that a small sales force can successfully introduce these products in this concentrated marketplace. The Company intends to develop its internal sales capacity as more products progress toward commercialization. The Company's other commercially available products, QuickCast splints and casts, are sold in the United States through the Company's national distribution partners, Physician Sales & Services, North Coast Medical and Sammons Preston, in conjunction with the Company's internal sales force.

Manufacturing

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

The Company currently manufactures its QuickCast and Intellipac breathable membrane products at its facilities in Menlo Park, California and with selected outside contract manufacturers. The manufacturing process for the Company's initial Intellipac breathable membrane products is comprised of polymer manufacturing, membrane coating and label conversion. Portions of this process are done at the Company on pilot-scale equipment while the remainder is performed by a third-party manufacturer. As volume increases, the Company plans to have the entire process completed by third party manufacturers. Manufacture of the Company's QuickCast products is performed by the Company. Components and new materials for QuickCast are purchased from vendors. QuickCast products and Intellipac breathable membranes are required to be manufactured under Good Manufacturing Practices as required by the FDA and California Department of Health Services.

Many of the raw materials used in manufacturing certain of the Company's products are currently purchased from a single source, such as certain monomers to synthesize Intelimer polymers and substrate materials for the Company's Intellipac breathable membrane products. The Company believes, however, that it currently has adequate inventories and that additional sources of supply are available. Upon an increase in manufacturing capability, the Company may enter into alternative supply arrangements. To date, the Company has not experienced difficulty acquiring this material for the manufacture of its products. However, no assurance can be given that interruptions in supplies will not occur in the future, that the Company could obtain substitute vendors or that the Company will be able to procure comparable

raw 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.

The Company intends to build or acquire large-scale polymer manufacturing facilities by 1998. In the interim, the Company believes that its current facilities and readily available additional facilities will meet its manufacturing needs. The Company believes that by 1998, in-house polymer manufacturing capability will be necessary to support its polymer requirements. Polymer manufacturing facilities will be separate from the QuickCast and Intellipac breathable membrane manufacturing facilities.

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. There can be no assurance that the Company will be able to develop commercial-scale manufacturing capabilities at acceptable costs or enter into agreements with third parties with respect to these activities.

Research and Development

Landec is focusing its research and development resources both on existing and new applications of its Intelimer technology. Examples of research and development for product line extensions include QuickCast products for the lower extremities, additional Intellipac breathable membranes for other vegetables and fruits and flowers and new catalyst systems for latent curing products. Landec is focusing additional research on new product forms such as composites, films, and laminates. The Company intends to periodically seek funds for applied materials research programs from U.S. government agencies such as the National Institutes of Health, as well as from commercial entities. To date, much of Landec's research has been funded by the U.S. Government and corporate partners. As of January 8, 1997 Landec had 23 employees in research and development (seven of whom have Ph.D.s) with experience in polymer, analytical and formulation chemistry and chemical engineering.

Competition

The Company operates in highly competitive and rapidly evolving fields, and new developments are expected to continue at a rapid pace. Competition from large 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 many 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.

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 been granted eight U.S. patents with expiration dates ranging from 2007 to 2012 and has filed applications for additional U.S. patents, as well as certain corresponding patent applications outside the United States, relating to the Company's technology. The Company's issued patents include claims relating to compositions, devices and use of a class of temperature sensitive polymers that exhibit distinctive properties of permeability, adhesion and viscosity. There can be no assurance that any of the pending patent applications will be approved, that the Company will develop additional proprietary products that are patentable, that any patents issued to the Company will provide the Company with competitive advantages or will not be challenged by any third parties or that the patents of others will not prevent the commercialization of products incorporating the Company's technology. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the

Company's products or if patents are issued to the Company, 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 also will depend, in part, on its ability to avoid infringing patents issued to others. The Company has received, and may in the future receive, from third parties, including some of its competitors, notices claiming that it is infringing third party patents or other proprietary rights. For example, the Company received a letter in January 1996 alleging that the Company's Intellipac breathable membrane product infringes patents of another party. The Company has investigated this matter and believes that its Intellipac breathable membrane product does not infringe the specified patents of such party. The Company has received an opinion of patent counsel that the Intellipac 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. In addition, if patents are issued to others which contain claims that compete or conflict with those of the Company and such competing or conflicting claims are ultimately determined to be valid, the Company may be required to pay damages, to obtain licenses to these patents, to develop or obtain alternative technology or to cease using such technology. If the Company is required to obtain any licenses, there can be no assurance that the Company will be able to do so on commercially favorable terms, if at all. The Company's failure to obtain a license to any technology that it may require to commercialize its products could have a material adverse impact on the Company's business, operating results and financial condition.

Litigation, which could result in substantial costs to the Company, may also be necessary to enforce any patents issued or licensed to the Company or to determine the scope and validity of third-party proprietary rights. If competitors of the Company prepare and file patent applications in the United States that claim technology also claimed by the Company, the Company may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine priority of invention, which could result in substantial cost to and diversion of effort by the Company, even if the eventual outcome is favorable to the Company. Any such litigation or interference proceeding, regardless of outcome, could be expensive and time consuming and could subject the Company to significant liabilities to third parties, require disputed rights to be licensed from third parties or require the Company to cease using such technology and consequently, could have a material adverse effect on the Company's business, operating results and financial condition.

In addition to patent protection, the Company also relies on trade secrets, proprietary know-how and technological advances which the Company seeks to protect, in part, by confidentiality agreements with its collaborators, employees and consultants. There can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any breach, or that the Company's trade secrets and proprietary know-how will not otherwise become known or be independently discovered by others.

FDA and Other Government Regulations

The Company's products and operations are subject to substantial regulation in the United States and foreign countries.

Medical Products. The Company's medical products are subject to stringent government regulation in the United States and other countries. In the United States, the Food, Drug, and Cosmetic Act, as amended ("FDCA"), and other statutes and regulations govern or influence the testing, manufacture, safety, labeling, storage, record keeping, approval, advertising and promotion of such products. Failure to comply with applicable requirements can result in fines, recall or seizure of products, total or partial suspension of production, withdrawal of existing product approvals or clearances, refusal to approve or clear new applications or notices and criminal prosecution.

The regulatory process is lengthy, expensive and uncertain. Prior to commercial sale in the United States, most medical devices, including the Company's products, must be cleared or approved by

the FDA. Securing FDA approvals and clearances may require the submission of extensive clinical data and supporting information to the FDA.

Under the FDC Act, medical devices are classified into one of three classes (i.e., class I, II or III) on the basis of the controls necessary to reasonably ensure their safety and effectiveness. Safety and effectiveness can reasonably be assured for class I devices through general controls (e.g., labeling, premarket notification and adherence to Good Manufacturing Practices) and for class II devices through the use of general and special controls (e.g., performance standards, postmarket surveillance, patient registries and FDA guidelines). Generally, class III devices are those which must receive premarket approval by the FDA to ensure their safety and effectiveness (e.g., life-sustaining, life-supporting and implantable devices or new devices which have been found not to be substantially equivalent to legally marketed devices.)

Before a new device can be introduced to the market, the manufacturer generally must obtain FDA clearance through either a 510(k) premarket notification or a PMA. A 510(k) clearance will be granted if the submitted data establishes that the proposed device is "substantially equivalent" to a legally marketed class I or class II medical device, or to a class III medical device for which the FDA has not called for PMAs. It generally takes from four to twelve months from submission to obtain 510(k) premarket clearance, although it may take longer. The FDA may determine that the proposed device is not substantially equivalent, or that additional clinical data are needed before a substantial equivalence determination can be made. Modifications or enhancements to products that are cleared through the 510(k) process that could significantly affect safety or effectiveness or effect a major change in the intended use of the device require new 510(k) submissions. The Company is also required to adhere to FDA Good Manufacturing Practices and similar regulation in other countries, which include testing, control and documentation requirements enforced by periodic inspections.

The Company's QuickCast products have received clearance through the 510(k) process and the Company intends to obtain clearance for its medical products pursuant to Section 510(k) of the FDC Act whenever possible. The Company plans to seek 510(k) clearance for its PORT ophthalmic device. The Company is conducting clinical trials under an Investigational Device Exemption ("IDE") that is granted by the FDA to permit testing of a device in a limited number of human beings in clinical trials conducted at a restricted group of clinical sites. The Company has completed a pilot clinical study and anticipates additional clinical studies with an expanded patient population. No assurance can be given that the necessary clearances for its products will be obtained by the Company on a timely basis, if at all, or that extensive clinical data and supporting information or a PMA application will not be required. FDA clearance is subject to continual review, and later discovery of previously unknown problems may result in restrictions on a product's marketing or withdrawal of the product from the market.

The Company understands that the FDA has recently been requiring a more rigorous demonstration of substantial equivalence in connection with 510(k) notifications and that in many cases the time periods required for product approvals have increased. If additional data is requested by the FDA, it could delay the Company's market introduction of its products. There can be no assurance that the FDA will not require additional data or that the Company will receive marketing clearance from the FDA for any of its products.

If a product is found to be not substantially equivalent to a legally marketed device or if it is a class III device for which the FDA has called for PMAs, a premarket approval application must be filed with the FDA. To obtain a PMA, a device must undergo extensive clinical trials to establish its safety and effectiveness. The PMA process can be expensive, uncertain and lengthy, typically requiring several years, with no guarantee of ultimate approval. Determination by the FDA that any of the Company's products or applications are subject to the PMA process could have a material adverse effect on the Company's business.

Food Packaging Products. The Company's food packaging products are also subject to regulation under the FDC Act. The manufacture of food packaging materials is subject to Good Manufacturing Practices regulations. In addition, 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 ("GRAS"). Food additives may be substances added directly to food, such as preservatives, or substances that could indirectly become a component of food, such as waxes, adhesives and packaging materials.

A food additive, whether direct or indirect, must be covered by a specific food additive regulation issued by the FDA. The Company believes its Intellipac breathable membrane products are not subject to regulation as food additives because these products are not expected to become a component of food under their expected conditions of use. If the FDA were to determine that the Company's Intellipac breathable membrane products are food additives, the Company may be required to submit a food additive petition. The food additive petition process is lengthy, expensive and uncertain. A determination by the FDA that a food additive petition is necessary would have a material adverse effect on the Company.

Agricultural Products. The Company's agricultural products are subject to regulations of the United States Department of Agriculture ("USDA") and the EPA. The Company believes its current Intellicoat seed coatings are not pesticides as defined in the Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA") and are not subject to pesticide regulation requirements. The process of meeting pesticide registration requirements is lengthy, expensive and uncertain, and may require additional studies by the Company. There can be no assurance that future products will not be regulated as pesticides. In addition, the Company believes that its Intellicoat seed coatings will not become a component of the agricultural products which are produced from the seeds to which the coatings are applied and therefore are not subject to regulation by the FDA as a food additive. While the Company believes that it will be able to obtain approval from such agencies to distribute its products, there can be no assurance that the Company will obtain necessary approvals without substantial expense or delay, if at all.

Polymer Manufacture. The Company's manufacture of polymers is subject to regulation by the EPA under the Toxic Substances Control Act ("TSCA"). Pursuant to TSCA, manufacturers of new chemical substances are required to provide pre-manufacturing notice ("PMN") to the EPA which can then require extensive testing to establish the safety of a new chemical or limit or prohibit the manufacture, use or distribution of such chemical. The EPA has promulgated an exemption from PMN requirements for certain polymers which it believes are of low concern due to their lack of reactivity and their molecular structure. To date, the Company's polymers have qualified for the exemption and the Company believes any future polymers it plans to develop will also qualify. No assurance can be given that future products will qualify for the exemption or that additional studies or restrictions will not be required by the EPA.

Other. The Company and its products under development may also be subject to other federal, state and local laws, regulations and recommendations. 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 made by the FDA, EPA or other regulatory bodies, with possible retroactive effect, relating to such matters as safe working conditions, laboratory and manufacturing practices, environmental controls, fire hazard control, and disposal of hazardous or potentially hazardous substances will not adversely affect the Company's business. There can also 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 upon the Company's ability to do business. Furthermore, the introduction of the Company's products in foreign markets might require obtaining foreign regulatory clearances. There can be no assurance that the Company will be able to obtain regulatory clearances for its products in such foreign markets.

Employees

As of October 31, 1996, Landec had 52 full-time employees, of whom 33 were dedicated to research, development, manufacturing, quality control and regulatory affairs and 19 were dedicated to sales, marketing and administrative activities. Landec intends to recruit additional personnel in

connection with the development, manufacturing and marketing of its products. None of Landec's employees is represented by a union, and Landec believes relationships with its employees are good.

Item 2. Properties

Landec leases and occupies approximately 30,000 square feet of office, laboratory and manufacturing space in Menlo Park, California. Of these facilities, approximately 21,000 square feet is leased through December 1997 with two three-year renewal options, 3,500 sq. feet of warehouse space is subleased through December 1996 and the remaining manufacturing space is subleased through December 1998. The Company believes that it will require additional space in 1998.

Item 3. Legal Proceedings

The Company is currently not a party to any material legal proceedings.

In October 1995, a customer of the Company received a letter alleging that the Company's Intellipac breathable membrane product infringes patents of another party. The Company received a similar letter in January 1996. The Company has investigated this matter and believes that its Intellipac breathable membrane product does not infringe the specified patents of such party. The Company has received an opinion of patent counsel that the Intellipac 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.

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

There were no matters submitted to a vote of security holders during the fourth quarter of the Company's fiscal year ending October 31, 1996.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Common Stock is traded in the over-the-counter market and is quoted on the NASDAQ National Market under the symbol "LNDC". The Common Stock was initially offered to the public on February 15, 1996 at a price of \$12.00 per share. The following table sets forth for each period indicated during 1996 the high and low sales prices for the Common Stock as reported on the NASDAQ National Market.

	High	Low
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4th Quarter ending October 31, 1996.....	\$16.00	\$ 8.38
3rd Quarter ending July 31, 1996.....	\$20.75	\$14.88
2nd Quarter ending April 30, 1996 (commencing February 15, 1996).....	\$19.00	\$12.00

There were approximately 112 holders of record of 10,753,711 shares of outstanding Common Stock as of October 31, 1996. The Company has not paid any dividends on the Common Stock since its inception. The Company presently intends to retain all future earnings for its business and does not anticipate paying cash dividends on its Common Stock in the foreseeable future.

Item 6. Selected Consolidated Financial Data

The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with the information contained in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes to Consolidated Financial Statements contained in Item 8 of this report.

	Year Ended October 31,				
	1996	1995	1994	1993	1992
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Product sales.....	\$ 755	\$ 601	\$ 335	\$ --	\$ --
License fees.....	600	2,650	400	350	475
Research and development revenues.....	1,096	796	965	821	811
Total revenues.....	2,451	4,047	1,700	1,171	1,286
Operating costs and expenses:					
Cost of product sales.....	1,004	987	897	--	--
Research and development.....	3,808	3,715	3,283	3,740	2,846
Selling, general and administrative.....	3,288	2,236	2,067	1,598	987
Total operating costs and expenses....	8,100	6,938	6,247	5,338	3,833
Operating loss.....	(5,649)	(2,891)	(4,547)	(4,167)	(2,547)
Net interest income.....	1,449	132	192	51	119
Net loss.....	\$(4,200)	\$(2,759)	\$(4,355)	\$(4,116)	\$(2,428)
Net loss per share.....	\$ (.55)				
Shares used in computation of net loss per share.....	7,699				
Supplemental net loss per share (1).....	\$ (.43)	\$(.38)			
Shares used in computation of supplemental net loss per share (1).....	9,697	7,175			

	October 31,				
	1996	1995	1994	1993	1992
	(in thousands)				
Balance Sheet Data:					
Cash, cash equivalents and short-term investments.....	\$36,510	\$ 5,549	\$ 5,706	\$ 9,772	\$ 1,975
Total assets.....	38,358	7,347	7,521	11,253	2,786
Redeemable convertible preferred stock.....	--	31,276	27,656	25,567	11,881
Accumulated deficit.....	(31,278)	(26,538)	(21,658)	(15,213)	(9,804)
Total shareholders' equity (net capital deficiency).....	\$36,640	\$(26,429)	\$(21,584)	\$(15,159)	\$(9,766)

(1) Computed on a supplemental basis as described in Note 1 of Notes to Consolidated Financial Statements.

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 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".

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, Intellipac breathable membranes for the fresh-cut produce packaging market, in September 1995. To date, the Company has recognized \$1.7 million in total QuickCast product and Intellipac breathable membrane sales. The balance of revenues from inception through October 31, 1996 have resulted from license fees and collaborative arrangements and, through October 31, 1994 have also resulted from 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 October 31, 1996, the Company's accumulated deficit was \$31.3 million.

Results of Operations

Fiscal Year Ended October 31, 1996 Compared to Fiscal Year Ended October 31, 1995

Total revenues were \$2.5 million for fiscal year 1996 compared to \$4.0 million for fiscal year 1995, a decrease of 39%. Revenues from research and development funding increased to \$1.1 million for fiscal year 1996 from \$796,000 for fiscal year 1995 due to an increase in the effort spent on research and development contracts in fiscal year 1996. Revenues from product sales increased to \$755,000 for fiscal year 1996 from \$601,000 for fiscal year 1995 due to increased sales volume of Intellipac breathable membrane products in the first three quarters of fiscal year 1996. In August 1996, Fresh Express decided to suspend orders of the Company's Intellipac breathable membranes for its fresh-cut broccoli and cauliflower packaging primarily due to cost issues. Subsequent to this decision, however, the Company worked with Fresh Express to reduce costs, and as a result, in October 1996, Fresh Express resumed ordering the Company's Intellipac breathable membranes. License fees decreased to \$600,000 for fiscal year 1996 from \$2.7 million for fiscal year 1995 primarily due to non-recurring license fee revenue recognized during the fourth quarter of fiscal year 1995 under the Company's agreement with Hitachi. In consideration for the license fees and research and development funding received from its corporate partners, the Company granted certain licenses and product rights. See "Business - Corporate Collaborations."

Cost of product sales consists of material, labor and overhead. Cost of product sales was \$1.0 million for fiscal year 1996 compared to \$987,000 for fiscal year 1995, an increase of 2%. Cost of product sales as a percentage of product sales decreased to 133% in fiscal year 1996 from 164% in fiscal year 1995. This decrease was primarily the result of the increased volume of the Intellipac breathable membrane product sales and increased labor efficiencies in both the QuickCast device and Intellipac breathable membrane product lines. The Company has experienced negative gross margins for its product 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 increase, gross margins will improve as the fixed portion of the cost of product sales will be allocated over higher sales. Improvements in gross margins due to increased product 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 \$3.8 million for fiscal year 1996 compared to \$3.7 million for fiscal year 1995, an increase of 3%. The Company's research and development expenses arise from the development, process scale-up and efforts to protect the intellectual property content of its enabling side-chain crystallizable polymer technology, which is the basis of the Company's 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 \$3.3 million for fiscal year 1996 compared to \$2.2 million for fiscal year 1995, an increase of 47%. Selling, general and administrative expenses consist primarily of sales and marketing expenses associated with the Company's product sales, business development and administrative expenses. Selling, general and administrative expenses increased as a result of expenses associated with the Company's withdrawal of a planned secondary public offering and business development initiatives totaling \$340,000 or \$.04 per share, increased sales and marketing expenses and the additional administrative costs associated with supporting a public company. Sales and marketing expenses were \$1.3 million for fiscal year 1996 compared to \$905,000 for fiscal year 1995, an increase of 47%. 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 three new national U.S. distributors for QuickCast products in fiscal year 1996. The Company expects that selling, general and administrative spending will continue to increase in absolute dollars, although it may vary as a percentage of total revenues.

Net interest income was \$1.4 million for fiscal year 1996 compared to \$132,000 for fiscal year 1995. Net interest income increased due to interest income earned on the Company's initial public offering proceeds.

Fiscal Year Ended October 31, 1995 Compared to Fiscal Year Ended October 31, 1994

Total revenues were \$4.0 million for fiscal year 1995 compared to \$1.7 million for fiscal year 1994, an increase of 138%. Revenues from research and development funding increased to \$796,000 for fiscal year 1995 from \$680,000 for fiscal year 1994. The Company received no revenues from SBIR government grant funding for fiscal year 1995 compared to \$285,000 for fiscal year 1994. Revenues from product sales increased to \$601,000 for fiscal year 1995 from \$335,000 for fiscal year 1994 primarily due to increased sales volume for QuickCast products and a small increase in their average selling prices. License fees increased to \$2.7 million for fiscal year 1995 from \$400,000 for fiscal year 1994.

Cost of product sales consists of material, labor and overhead. Cost of product sales was \$987,000 for fiscal year 1995 compared to \$897,000 for fiscal year 1994, an increase of 10%. Cost of product sales as a percentage of product sales decreased to 164% in fiscal year 1995 from 268% in fiscal year 1994. This decrease was primarily the result of increased volumes and manufacturing efficiencies for the QuickCast products. The Company experienced negative gross margins for its product sales due to the early stage of commercialization of the Company's products and related product start-up costs. Cost of product sales did not increase at the same rate as revenues from product sales due to these start-up costs, and the fact that fiscal year 1995 was the first full year of product sales.

Research and development expenses were \$3.7 million for fiscal year 1995 compared to \$3.3 million for fiscal year 1994, an increase of 13%. Research and development expenses increased primarily as a result of increased process development costs associated with the launch of the Company's Intellipac breathable membrane products and development of the PORT ophthalmic device, which were offset by a decline in development expenses associated with the QuickCast product line launched in fiscal year 1994.

Selling, general and administrative expenses were \$2.2 million for fiscal year 1995 compared to \$2.1 million for fiscal year 1994, an increase of 8%. Sales and marketing expenses increased to \$905,000 for fiscal year 1995 from \$823,000 for fiscal year 1994, primarily due to marketing and sales activities for the QuickCast product line.

Net interest income was \$132,000 for fiscal year 1995 compared to \$192,000 for fiscal year 1994, a decrease of 31%. The decrease resulted primarily from interest expense of \$42,000 associated with the convertible promissory notes issued in March 1995.

Liquidity and Capital Resources

The Company completed its initial public offering of common stock in February 1996, raising approximately \$35.0 million, net of underwriting discounts and commissions, and issuance costs. Prior to the Company's initial public offering, the Company financed its operations primarily through private sales of its equity securities, issuances of convertible debt, equipment lease financings and license and development fees. Through October 31, 1996 the Company has received net offering proceeds of approximately \$23.8 million from private sales of equity securities, \$700,000 from the issuance of convertible notes in March 1995 and \$1.1 million from lease financing.

Cash used in operating activities increased by \$1.4 million to \$3.6 million in fiscal year 1996 from \$2.2 million in fiscal year 1995. The increase is primarily due to an increase in the Company's net loss in fiscal year 1996 compared to fiscal year 1995.

The Company has not made significant outlays for capital expenditures since inception. During fiscal year 1996 the Company spent approximately \$367,000 on capital expenditures. Capital expenditures to date have consisted primarily of purchases of laboratory and manufacturing equipment, computers and related peripheral equipment, furniture and fixtures and leasehold improvements. The Company currently anticipates that capital expenditures in fiscal year 1997 will be approximately \$1.0 million. Such expenditures will include purchases of additional laboratory and manufacturing equipment, computers and related peripheral equipment and leasehold improvements.

The Company believes that existing cash, cash equivalent and short-term investments, which totaled \$36.5 million at October 31, 1996, will be sufficient to finance its capital requirements through at least the next twelve months. However, the Company's future capital requirements will depend on numerous factors, including the progress of its research and development programs; the development of commercial scale manufacturing capabilities; the development of marketing, sales and distribution capabilities; the ability of 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 and 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, through bank borrowings and through public or private sales of its securities, including equity 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.

The Company has not generated taxable income to date. At October 31, 1996, the net operating losses available to offset future taxable income for federal income tax purposes were approximately \$17.7 million. Because the Company has experienced ownership changes, future utilization of the carryforwards may be limited in any one fiscal year pursuant to Internal Revenue Code regulations. The carryforwards expire at various dates beginning in 2001 through 2011, if not utilized. As a result of the annual limitation, a portion of these carryforwards may expire before ultimately becoming available to reduce federal income tax liabilities.

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 \$4.2 million and \$2.8 million during fiscal years 1996 and 1995, respectively, and the Company's accumulated deficit as of October 31, 1996 totaled \$31.3 million. 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 Hitachi and BFGoodrich in connection with its Intelimer polymer systems, Fresh Express and Printpack in connection with its Intellipac breathable membrane products, Nitta and Hitachi in connection with its industrial adhesive products and Smith & Nephew, Physician Sales & Services, North Coast Medical and Sammons Preston 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. Development funding and license fees from product sales to Hitachi, BFGoodrich, Nitta and Smith & Nephew represented approximately 65% of the Company's revenues for fiscal year 1996. Moreover, research and development revenue from Hitachi and Nitta each accounted for more than 10% of the Company's total revenues for 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 its research and development collaboration with BFGoodrich in the Intelimer polymer systems area by removing certain 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.

In August 1996, Fresh Express informed the Company that it had decided to suspend orders of Landec's Intellipac breathable membranes for Fresh Express' fresh-cut broccoli and cauliflower packaging primarily due to cost issues. Subsequent to this decision, however, the Company worked with Fresh Express to reduce these cost issues, and as a result, in October 1996 Fresh Express resumed ordering the Company's Intellipac breathable membranes. In October 1996, the Company also began shipping its Intellipac breathable membrane for fresh-cut broccoli packaging to a second produce customer. However, there can be no assurance that Fresh Express will continue to order Landec's Intellipac breathable membranes or that other customers will order such products.

The Company anticipates that it will terminate its relationship with Smith & Nephew in early 1997 for QuickCast products in certain European and Pacific Rim countries, Canada and South Africa, and, as a result, the Company is currently in the process of initiating distribution relationships with other independent distributors in selected countries.

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 Intellipac 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 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 received within the past year a letter alleging that the Company's Intellipac breathable membrane product infringes patents of another party. The Company has investigated this matter and believes that its Intellipac breathable membrane product does not infringe the specified patents of such party. The Company has received an opinion of patent counsel that the Intellipac 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. In fiscal year 1996, the Company changed its distribution approach with respect to the QuickCast product line in the United States to include several national distributors. The Company has entered into distribution agreements with Physician Sales & Services, North Coast Medical, and Sammons Preston. Each of the Company's distributors can cease marketing the Company's products with limited notice and with little or no penalty. There can be no assurance the Company's distributors will continue to offer the Company's products or that the Company will be able to recruit additional or replacement distributors. The loss of one or more of the Company's major distributors would have a material adverse effect on the Company's business, operating results and financial condition.

International Operations and Sales. During fiscal years 1996 and 1995, approximately 60% and 73%, respectively, 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 medical product liability insurance in the minimum amount of \$2.0 million per occurrence with a minimum annual aggregate limit of \$2.0 million and non-medical product liability insurance in the minimum amount of \$5.0 million per occurrence with a minimum annual aggregate limit of \$5.0 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.

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.

Item 8. Financial Statements and Supplementing Data

See Item 14 of Part IV of this report.

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

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

This information required by this item is contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than February 28, 1997 (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 is contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than February 28, 1997 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

This information required by this item is contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than February 28, 1997 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

This information required by this item is contained in the Registrant's definitive proxy statement which the Registrant will file with the Commission no later than February 28, 1997 (120 days after the Registrant's fiscal year end covered by this Report) and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

1(a) Consolidated Financial Statements and Schedules of Landec Corporation and Subsidiaries

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

Board of Directors and Shareholders
Landec Corporation

We have audited the accompanying consolidated balance sheets of Landec Corporation as of October 31, 1996 and 1995, and the related consolidated statements of operations, changes in redeemable convertible preferred stock and shareholders' equity (net capital deficiency) and cash flows for each of the three years in the period ended October 31, 1996. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Landec Corporation at October 31, 1996 and 1995 and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 1996 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Palo Alto, California
December 6, 1996

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

	October 31,	
	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,185	\$ 3,585
Short-term investments	22,325	1,964
Accounts receivable, less allowance for doubtful accounts of \$32 at October 31, 1996 and 1995	23	53
Inventory	549	488
Prepaid expenses and other current assets	188	115
	-----	-----
Total current assets	37,270	6,205
Property and equipment, net	963	993
Other assets	125	149
	-----	-----
	\$ 38,358	\$ 7,347
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)		
Current liabilities:		
Convertible notes payable	\$ --	\$ 700
Accounts payable	484	291
Accrued compensation	250	302
Other accrued liabilities	259	281
Current portion of capital lease obligations	229	239
Deferred revenue	166	129
	-----	-----
Total current liabilities	1,388	1,942
Noncurrent portion of capital lease obligations	330	558
Commitments		
Redeemable convertible preferred stock at accreted value; none and 6,674,415 shares issued and outstanding at October 31, 1996 and 1995, respectively	--	31,276
Shareholders' equity (net capital deficiency):		
Preferred stock, \$0.001 par value; 2,000,000 shares authorized, issuable in series	--	--
Common stock, \$0.001 par value; 50,000,000 shares authorized; 10,753,711 and 547,678 shares issued and outstanding at October 31, 1996 and 1995, respectively	68,242	536
Notes receivable from shareholders	(13)	(20)
Deferred compensation	(311)	(407)
Accumulated deficit	(31,278)	(26,538)
	-----	-----
Total shareholders' equity (net capital deficiency)	36,640	(26,429)
	-----	-----
	\$ 38,358	\$ 7,347
	=====	=====

See accompanying notes.

LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended October 31,		
	1996	1995	1994
Revenues:			
Product sales.....	\$ 755	\$ 601	\$ 335
License fees	600	2,650	400
Research and development revenues	1,096	796	965
	-----	-----	-----
Total revenues	2,451	4,047	1,700
Operating costs and expenses:			
Cost of product sales	1,004	987	897
Research and development	3,808	3,715	3,283
Selling, general and administrative	3,288	2,236	2,067
	-----	-----	-----
	8,100	6,938	6,247
	-----	-----	-----
Operating loss	(5,649)	(2,891)	(4,547)
Interest income	1,548	282	273
Interest expense	(99)	(150)	(81)
	-----	-----	-----
Net loss.....	\$(4,200)	\$(2,759)	\$(4,355)
	=====	=====	=====
Net loss per share.....	\$ (.55)		
	=====		
Shares used in computation of net loss per share.....	7,699		
	=====		
Supplemental net loss per share.....	\$ (.43)	\$ (.38)	
	=====	=====	
Shares used in computation of supplemental net loss per share.....	9,697	7,175	
	=====	=====	

See accompanying notes.

LANDEC CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK
AND SHAREHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)
(in thousands, except share and per share amounts)

	Redeemable Convertible Preferred Stock		Shareholders' Equity (Net Capital Deficiency)		Notes Receivable From Sale of Common Stock
			Common Stock		
	Shares	Amount	Shares	Amount	
Balances at October 31, 1993	6,484,692	\$ 25,567	521,617	\$ 86	\$ (32)
Return of common stock and cancellation and repayment of notes receivable	--	--	(2,433)	(1)	9
Issuance of common stock at \$0.58 per share	--	--	20,700	12	--
Accretion of redemption price differential on redeemable convertible preferred stock	--	2,089	--	--	--
Net loss	--	--	--	--	--
Balances at October 31, 1994	6,484,692	\$ 27,656	539,884	\$ 97	\$ (23)
Issuance of Series E redeemable convertible preferred stock for cash at \$7.91 per share	189,723	1,500	--	--	--
Issuance of common stock at \$0.58 to \$0.86 per share	--	--	7,968	5	--
Return of common stock and cancellation and repayment of notes receivable	--	--	(174)	--	3
Accretion of redemption price differential on redeemable convertible preferred stock	--	2,120	--	--	--
Deferred compensation related to grant of stock options	--	--	--	434	--
Amortization of deferred compensation	--	--	--	--	--
Unrealized loss on available-for-sale securities	--	--	--	--	--
Net loss	--	--	--	--	--
Balances at October 31, 1995	6,674,415	\$ 31,276	547,678	\$ 536	\$ (20)
Initial Public Offering of common stock, \$12.00 per share, net of issuance costs	--	--	3,220,000	35,035	--
Accretion of redemption price differential on redeemable convertible preferred stock	--	556	--	--	--
Conversion of Series B, C, D and E redeemable convertible preferred stock into common stock	(6,674,415)	(31,832)	6,674,415	31,832	--
Conversion of convertible notes payable	--	--	176,432	700	--
Deferred compensation related to grant of stock options	--	--	--	17	--
Issuance of common stock at \$0.58 to \$10.20 per share ...	--	--	135,186	122	--
Repayment of notes receivable	--	--	--	--	7
Amortization of deferred compensation	--	--	--	--	--
Unrealized gain on available-for-sale securities	--	--	--	--	--
Net loss	--	--	--	--	--
Balance at October 31, 1996	--	\$ --	10,753,711	\$ 68,242	\$ (13)

(Table continued on next page.)

LANDEC CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK
AND SHAREHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)--(Continued)
(in thousands, except shares and per share amounts)

	Shareholders' Equity (Net Capital Deficiency)		
	Deferred Compensation	Accumulated Deficit	Total Shareholders' Equity (Net Capital Deficiency)
Balances at October 31, 1993	\$ --	\$(15,213)	\$(15,159)
Return of common stock and cancellation and repayment of notes receivable	--	--	8
Issuance of common stock at \$0.58 per share	--	--	12
Accretion of redemption price differential on redeemable convertible preferred stock	--	(2,090)	(2,090)
Net loss	--	(4,355)	(4,355)
	-----	-----	-----
Balances at October 31, 1994	\$ --	\$(21,658)	\$(21,584)
	-----	-----	-----
Issuance of Series E redeemable convertible preferred stock for cash at \$7.91 per share	--	--	--
Issuance of common stock at \$0.58 to \$0.86 per share	--	--	5
Return of common stock and cancellation and repayment of notes receivable	--	--	3
Accretion of redemption price differential on redeemable convertible preferred stock	--	(2,120)	(2,120)
Deferred compensation related to grant of stock options	(434)	--	--
Amortization of deferred compensation	27	--	27
Unrealized loss on available-for-sale securities	--	(1)	(1)
Net loss	--	(2,759)	(2,759)
	-----	-----	-----
Balances at October 31, 1995	\$ (407)	\$(26,538)	\$(26,429)
	-----	-----	-----
Initial Public Offering of common stock, \$12.00 per share, net of issuance costs	--	--	35,035
Accretion of redemption price differential on redeemable convertible preferred stock	--	(556)	(556)
Conversion of Series B, C, D and E redeemable convertible preferred stock into common stock	--	--	31,832
Conversion of convertible notes payable	--	--	700
Deferred compensation related to grant of stock options	(17)	--	--
Issuance of common stock at \$0.58 to \$10.20 per share	--	--	122
Repayment of notes receivable	--	--	7
Amortization of deferred compensation	113	--	113
Unrealized gain on available-for-sale securities	--	16	16
Net loss	--	(4,200)	(4,200)
	-----	-----	-----
Balance at October 31, 1996	\$ (311)	\$(31,278)	\$ 36,640
	=====	=====	=====

See accompanying notes.

LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended October 31,		
	1996	1995	1994
Increase (Decrease) in cash and cash equivalents			
Cash flows from operating activities:			
Net loss	\$ (4,200)	\$ (2,759)	\$ (4,355)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	397	378	362
Loss on disposal of fixed assets	--	25	17
Amortization of deferred compensation	113	27	--
Changes in assets and liabilities:			
Accounts receivable	30	132	2
Inventory	(61)	(288)	(200)
Prepaid expenses and other current assets	(73)	(16)	155
Accounts payable	193	(53)	25
Accrued compensation	(52)	93	55
Other accrued liabilities	(22)	89	49
Deferred revenue	37	129	--
Total adjustments	562	516	465
Net cash used in operating activities	(3,638)	(2,243)	(3,890)
Cash flows from investing activities:			
Purchases of property and equipment	(367)	(48)	(84)
Decrease (increase) in other assets	24	(28)	(70)
Purchases of available-for-sale securities	(26,345)	(6,470)	(8,188)
Maturities of available-for-sale securities	6,000	7,800	4,893
Net cash provided by (used in) investing activities	(20,688)	1,254	(3,449)
Cash flows from financing activities:			
Proceeds from sale of common stock, net of repurchases	35,157	5	10
Proceeds from sale of preferred stock	--	1,500	--
Proceeds from repayment of notes receivable	7	3	9
Payments on capital lease obligations	(238)	(183)	(223)
Proceeds from issuance of convertible notes payable	--	700	--
Proceeds from capital lease financing of prior year capital expenditures	--	138	182
Net cash provided by (used in) financing activities	34,926	2,163	(22)
Net increase (decrease) in cash and cash equivalents	10,600	1,174	(7,361)
Cash and cash equivalents at beginning of period	3,585	2,411	9,772
Cash and cash equivalents at end of period	\$ 14,185	\$ 3,585	\$ 2,411
	=====	=====	=====
Supplemental disclosure of cash flows information:			
Cash paid during the period for interest	\$ 99	\$ 108	\$ 94
	=====	=====	=====
Supplemental schedule of noncash investing and financing activities:			
Equipment acquired under capital leases	\$ --	\$ 154	\$ 516
	=====	=====	=====
Conversion of convertible notes payable into common stock	\$ 700	\$ --	\$ --
	=====	=====	=====

See accompanying notes.

LANDEC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization

Landec Corporation (the "Company") was incorporated in the State of California on October 31, 1986 for the purpose of designing, developing, manufacturing and selling temperature-activated polymer and membrane products for a variety of industrial, medical and agricultural applications.

The consolidated financial statements comprise the accounts of Landec Corporation and its wholly owned subsidiary, Intellicoat Corporation ("Intellicoat"), which was incorporated in the State of Delaware in March 1995. All intercompany transactions and balances have been eliminated.

Cash, Cash Equivalents and Investments

Effective November 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115 ("FAS 115"), "Accounting for Certain Investments in Debt and Equity Securities," the cumulative effect of which was immaterial.

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. As of October 31, 1996 and 1995, the Company's debt securities are carried at fair value and classified as available-for-sale, as the Company may not hold these securities until maturity in order to take advantage of market conditions. The Company records all highly liquid securities with three months or less from date of purchase to maturity as cash equivalents. All other available-for-sale securities are recorded as short-term investments. Unrealized gains and losses are reported in shareholders' equity. The cost of debt securities is adjusted for amortization of premiums and discounts to maturity. This amortization is included in interest income. Realized gains and losses on available-for-sale securities are also included in interest income. The cost of securities sold is based on the specific identification method.

Concentrations of Credit Risk

Cash, cash equivalents and short-term investments are financial instruments which potentially subject the Company to concentrations of risk. Corporate policy limits, among other things, the amount of credit exposure to any one issuer and to any one type of investment, other than securities issued or guaranteed by the U.S. government.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. As of October 31, 1996 and 1995 inventories consisted of (in thousands):

	October 31,	
	-----	-----
	1996	1995
	----	----
Raw materials	\$149	\$123
Work in process	245	169
Finished goods	155	196
	----	----
	\$549	\$488
	====	====

1. Organization and Summary of Significant Accounting Policies (continued)

Net Loss Per Share

Except as noted below, 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 anti-dilutive, except that, pursuant to the Securities and Exchange Commission ("SEC") Staff Accounting Bulletins, common and common equivalent shares (stock options, warrants, convertible notes payable and preferred stock) issued during the 12-month period prior to the initial filing of an offering at prices below the public offering price have been included in the calculation as if they were outstanding for all periods presented (using the treasury stock method for stock options).

Net loss per share information is as follows (in thousands, except per share data):

	Year Ended October 31,		
	1996	1995	1994
	----	----	----
Net loss per share.....	\$ (.55)	\$(2.33)	\$(3.75)
Shares used in computing net loss per share.....	7,699	1,182	1,162

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 anti-dilutive 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.

Revenue Recognition

Revenues related to research contracts are recognized ratably over the related funding periods for each contract, which is generally as research is performed. Revenues related to license agreements with noncancelable, nonrefundable terms and no significant future obligations are recognized upon inception of the agreements. Product sales are recognized upon shipment.

Revenues from customers representing 10% or more of total revenue during fiscal years 1996, 1995 and 1994 are as follows:

	1996	1995	1994
	----	----	----
Customer:			
A	35%	11%	0%
B	20%	53%	15%
C	14%	0%	0%
D	8%	18%	21%
E	3%	2%	12%
F	0%	0%	14%
G	0%	2%	12%

Export product sales were approximately \$136,000, \$378,000 and \$143,000 in the years ended October 31, 1996, 1995 and 1994, respectively.

1. Organization and Summary of Significant Accounting Policies (continued)

Research and Development Expenses

Costs related to both research contracts and Company-funded research are included in research and development expenses. Research and development costs approximated the associated research and development revenues for the three years ended October 31, 1996.

Property and Equipment

Furniture, fixtures and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives of three to five years. Leasehold improvements are amortized over the lesser of the economic life of the improvement or the life of the lease on a straight-line basis.

In 1995, the Financial Accounting Standards Board released SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. SFAS No. 121 is effective for fiscal years beginning after December 15, 1995. Adoption of SFAS No. 121 is not expected to have a material impact on the Company's financial position or results of operations.

Accounting for Stock-Based Compensation

The Company accounts for its stock option plans and its employee stock purchase plans in accordance with the provisions of the Accounting Principles Board Opinion No. 25 (APB 25) "Accounting for Stock Issued to Employees." In 1995, the Financial Accounting Standards Board released SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 provides an alternative to APB 25 and is effective for fiscal years beginning after December 15, 1995. The Company expects to continue to account for its employee stock plans in accordance with the provision of APB 25. Accordingly, SFAS No. 123 is not expected to have any material impact on the Company's financial position or results of operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Collaborative Agreements

To facilitate the commercialization of its products, the Company has established a number of strategic alliances in which the Company receives license payments, research and development funding and/or future royalties in exchange for certain technology or marketing rights.

Hitachi. The Company has entered into two separate collaborations with Hitachi in the areas of industrial adhesives and Intelimer polymer systems. On October 1, 1994, the Company entered into a non-exclusive license agreement with Hitachi in the industrial adhesives area.

2. Collaborative Agreements (continued)

The agreement provides Hitachi with a non-exclusive license to manufacture and sell products using Landec's Intelimer materials in certain Asian countries. Landec received up-front license fees upon signing the agreement and is entitled to future royalties based on net sales by Hitachi of the licensed products. Any fees paid to the Company are non-refundable.

On August 10, 1995, the Company entered into a second collaboration with Hitachi in the Intelimer polymer systems area. The agreement provides Hitachi with an exclusive license to use and sell Landec's catalyst systems in industrial Intelimer polymer systems products in certain Asian countries. In addition, Hitachi also received limited options and rights for certain other technology applications in its Asian territory. Landec received an up-front license payment upon signing this agreement and is entitled to receive research and development funding over three years and future royalties based on net sales by Hitachi of the licensed products. Any fees paid to the Company are non-refundable. This agreement is terminable at Hitachi's option. In conjunction with this agreement, Hitachi purchased 189,723 shares of Series E Preferred Stock for \$1.5 million (which was converted into 189,723 shares of common stock in connection with the Company's initial public offering).

BFGoodrich. On October 13, 1993, the Company entered into a collaboration with BFGoodrich. The agreement was amended on July 29, 1995 and again in March 1996, and provides BFGoodrich with a nonexclusive worldwide (excluding Asia) license to use and sell Landec's catalyst systems in industrial Intelimer polymer systems products. Landec is entitled to be the exclusive supplier of Intelimer catalyst systems to BFGoodrich for at least seven years. Landec received an up-front license payment upon signing and additional license fees upon achieving certain milestones. Under the agreement, development was funded by BFGoodrich for the first year, was extended to subsequent years, and was concluded during the second quarter of fiscal year 1996. The Company is entitled to receive future royalties based on net sales by BFGoodrich of the licensed products. Any fees paid to the Company are non-refundable.

Nitta. On March 14, 1995, the Company entered into a license agreement with Nitta in the industrial adhesives area. The agreement provides Nitta with a co-exclusive license to manufacture and sell products using Landec's Intelimer materials in certain Asian countries. Landec received up-front license fees upon signing the agreement and is entitled to future royalties based on net sales by Nitta of the licensed products. Any fees paid to the Company are non-refundable. In addition, Nitta also received limited options for certain other technology applications in its Asian territory. This agreement is terminable at Nitta's option. In March 1996, this agreement was expanded to provide Nitta an exclusive license to use and sell products using the Company's Intelimer materials in the medical adhesives area in certain Asian countries. The Company received an up front license fee upon signing the expanded agreement and is entitled to future royalties based on net sales by Nitta of the licensed products.

The Company has also entered into several other collaborative arrangements, principally to support research and development for its Intellipac breathable membrane and ophthalmic products as well as other technologies being pursued by the Company. Under the terms of these agreements, the Company generally receives research and development funding and rights to future royalties from product sales, in exchange for granting certain technology or distribution rights.

In addition, the Company has entered into several distribution agreements for its QuickCast orthopedic and splinting products. Under the terms of these agreements, the Company has granted exclusive and non-exclusive rights to have its QuickCast products distributed to orthopedic surgeons, cast technicians, physical assistants and the occupational and physical therapists.

3. Available-for-Sale Securities

The following is a summary of available-for-sale securities (in thousands):

	Amortized Cost -----	Gross Unrealized Gains -----	Gross Unrealized Losses -----	Estimated Fair Value -----
October 31, 1996				
U.S. government and agency obligations	\$20,263	\$ 9	\$--	\$20,272
Corporate bonds	12,940	9	--	12,949
Other corporate securities	2,027	--	(2)	2,025
	-----	---	---	-----
Total securities	\$35,230	\$18	\$(2)	\$35,246
	=====	===	===	=====
Amounts included in:				
Cash equivalents	\$12,921	\$--	\$--	\$12,921
Short-term investments	22,309	18	(2)	22,325
	-----	---	---	-----
Total securities	\$35,230	\$18	\$(2)	\$35,246
	=====	===	===	=====
October 31, 1995				
U.S. government and agency obligations	\$ 4,959	\$--	\$(1)	\$ 4,958
	=====	===	===	=====
Amounts included in:				
Cash equivalents	\$ 2,994	\$--	\$--	\$ 2,994
Short-term investments	1,965	--	(1)	1,964
	-----	---	---	-----
Total securities	\$ 4,959	\$--	\$(1)	\$ 4,958
	=====	===	===	=====

The contractual maturities of debt securities included in temporary investments at October 31, 1996 were as follows (in thousands):

	Amortized Cost -----	Estimated Fair Value -----
Due within one year.....	\$16,891	\$16,895
Due within one to two years.....	5,418	5,430
	-----	-----
Total short-term investments.....	\$22,309	\$22,325
	=====	=====

4. Property and Equipment

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

	October 31,	
	----- 1996 -----	----- 1995 -----
Laboratory and manufacturing equipment	\$ 1,775	\$ 1,530
Computer equipment	322	261
Furniture and fixtures	161	134
Leasehold improvements	990	986
	-----	-----
	3,248	2,911
Less accumulated depreciation and amortization	(2,285)	(1,918)
	-----	-----
	\$ 963	\$ 993
	=====	=====

Property and equipment includes approximately \$973,000 and \$1.1 million recorded under capital leases at October 31, 1996 and 1995, respectively. Accumulated amortization related to leased assets total approximately \$537,000 and \$389,000 at October 31, 1996 and 1995, respectively.

5. Redeemable Convertible Preferred Stock and Warrants

Upon closing of the Company's initial public offering in February 1996, all outstanding shares of redeemable convertible preferred stock (an aggregate of 6,674,415 shares) were converted into 6,674,415 shares of common stock.

In connection with the sale of Series D preferred stock in July 1993, the Company issued warrants to purchase 186,349 shares of common stock at an exercise price of \$4.31 per share for \$5,357 in cash. The warrants expire five years from the date of issuance. No warrants have been exercised as of October 31, 1996.

6. Shareholders' Equity

Common Stock, Stock Purchase Plans and Stock Option Plans

In December 1995, the Board approved a one-for-2.875 reverse stock split of its common stock and preferred stock through an amendment to the Articles of Incorporation. All share and per share amounts in the accompanying financial statements have been retroactively adjusted to reflect this event. The Board has also approved an amendment to the Articles of Incorporation to change the number of authorized shares of common stock to 50,000,000 shares and Preferred Stock to 2,000,000 shares upon the closing of the Company's initial public offering.

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 \$30.3 million, after deducting underwriting discounts, commissions and expenses.

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, commissions and expenses.

The Company has 2,838,565 common shares reserved for future issuance under all stock option plans, outstanding warrants and employee stock purchase plans.

6. Shareholders' Equity (continued)

The Company has a 1988 Stock Purchase Plan for issuance of common stock to employees and consultants. The price of the shares to be purchased and the terms of payment are determined by the Company's Board of Directors, provided that such price cannot be less than the fair market value on the date of the grant. Shares purchased under the plan vest over a period of four years; the Company may repurchase any unvested shares in the event of termination of employment. As of October 31, 1996, 143,965 shares of common stock had been purchased under the plan at prices ranging from \$0.29 to \$0.58 per share, of which no shares were subject to repurchase. The plan was terminated in December 1995.

The Company established the 1988 Stock Option Plan under which the Board of Directors may grant incentive stock options or nonqualified stock options to its employees and outside consultants. As of October 31, 1996, the Company had reserved 1,574,161 shares of common stock for future issuance under the plan. The exercise price of incentive stock options and nonqualified stock options may be no less than 100% and 85%, respectively, of the fair market value of the Company's common stock as determined by the Board of Directors. Options are exercisable upon grant and generally vest ratably over four years (commencing one year after an employee's hire date) and are subject to repurchase if exercised before being vested.

In December 1995, the Board also approved the adoption of the 1995 Employee Stock Purchase Plan (the "Purchase Plan") and the 1995 Directors' Stock Option Plan (the "Directors' Plan"), which authorizes the issuance of 300,000 and 200,000 shares, respectively, under the plans. The Purchase Plan permits eligible employees to purchase common stock, which may not exceed 10% of an employee's compensation, at a price equal to the lower of 85% of the fair market value of the Company's common stock at the beginning of the offering period or on the purchase date. The Directors' Plan provides that each person who becomes a nonemployee director of the Company, who has not received a previous grant, shall be granted a nonstatutory stock option to purchase 20,000 shares of common stock on the date on which the optionee first becomes a nonemployee director of the Company. Thereafter, on the date of each annual meeting of the shareholders each non-employee Director shall be granted an additional option to purchase 5,000 shares of common stock if, on such date, he or she shall have served on the Company's Board of Directors for at least six months prior to the date of such annual meeting. The exercise price of the options will be the fair market value of the Company's common stock on the date the options are granted. In June 1996, the Board amended the Directors' Plan to provide that options are exercisable and vest upon grant. Such amendment is subject to shareholder approval to be recommended by the Company at its next meeting of shareholders.

In September 1996, the Board approved the adoption of the 1996 Non-Executive Stock Option Plan which authorizes the issuance of 750,000 shares under the plan. The Board of Directors may grant non-qualified stock options to employees and outside consultants who are not officers or directors of the Company. The exercise price of the options will be equal to the fair market value of the Company's common stock on the date the options are granted. Options are exercisable upon grant and generally vest ratably over four years and are subject to repurchase if exercised before being vested.

In October 1996, the Board of Directors of Intellicoat approved the adoption of the 1996 Intellicoat Stock Plan which authorizes the issuance of 2,000,000 shares of Intellicoat common stock under the plan. The Board of Directors of Intellicoat may grant stock purchase rights, incentive stock options or non-statutory stock options to employees and outside consultants. The exercise price of the stock purchase rights, incentive stock options and non-statutory stock options may be no less than 85%, 100% and 85%, respectively, of the fair market value of Intellicoat's common stock as determined by Intellicoat's Board of Directors. Options are exercisable upon grant and generally vest ratably over four

6. Shareholders' Equity (continued)

years and are subject to repurchase if exercised before being vested. No shares have been granted under this plan as of October 31, 1996.

Activity under all Stock Option Plans is as follows:

	Options Available for Grant	Outstanding Options	
		Number of Shares	Price Per Share
Balance at October 31, 1993.....	164,407	706,011	\$0.58
Additional shares reserved.....	347,826	--	--
Options granted.....	(188,145)	188,145	\$0.58-\$0.86
Options exercised.....	--	(20,700)	\$0.58
Options canceled.....	50,448	(50,448)	\$0.58-\$0.86
Balance at October 31, 1994.....	374,536	823,008	\$0.58-\$0.86
Additional shares reserved.....	347,826	--	--
Options granted.....	(410,570)	410,570	\$0.86-\$1.44
Options exercised.....	--	(7,968)	\$0.58-\$0.86
Options canceled.....	13,691	(13,691)	\$0.58-\$0.86
Balance at October 31, 1995.....	325,483	1,211,919	\$0.58-\$1.44
Additional shares reserved.....	950,000	--	--
Options granted.....	(128,959)	128,959	\$3.59-\$20.75
Options exercised.....	--	(131,537)	\$0.58-\$1.44
Options canceled.....	30,993	(30,993)	\$0.58-\$19.00
Balance at October 31, 1996.....	<u>1,177,517</u>	<u>1,178,348</u>	<u>\$0.58-\$20.75</u>

At October 31, 1996 and 1995, options to purchase 744,355 and 602,991 common shares were vested, respectively. No options have been exercised prior to being vested.

For options granted through October 31, 1996, the Company recognized an aggregate of \$451,000 as deferred compensation for the excess of the deemed value for accounting purposes of the common stock issuable on exercise of such options over the aggregate exercise price of such options. The deferred compensation expense is being amortized ratably over the vesting period of the options.

7. Notes Payable

In March 1995, the Company issued notes payable to two current investors for \$700,000. The notes and accrued interest were payable upon demand of the holder, and in no event later than three years from the date of issuance. The notes bear interest at a rate of 10% per annum. Upon the completion of the Company's initial public offering, the principal value of the notes were converted into 176,432 shares of common stock (converted at \$3.97 per share) and all accrued interest was forgiven.

8. Income Taxes

As of October 31, 1996, the Company had net operating loss carryforwards of approximately \$17,700,000 for federal income tax purposes. The net operating loss carryforwards will expire at various dates beginning in 2001 through 2011, if not utilized.

Utilization of the net operating losses and credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986.

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

	Years ended October 31,	
	----- 1996	1995 -----
Deferred tax assets:		
Net operating loss carryforwards	\$ 6,300	\$ 5,500
Research credit carryforwards	800	800
Capitalized research costs	2,100	1,400
	-----	-----
Total deferred tax assets	9,200	7,700
Valuation allowance	(9,200)	(7,700)
	=====	=====
Net deferred tax assets	\$ --	\$ --
	=====	=====

Due to the Company's absence of earning history, the net deferred tax asset has been fully offset by a valuation allowance.

The valuation allowance increased by \$1,200,000 and \$1,400,000 during the years ended October 31, 1995 and 1994, respectively.

9. Commitments

Leases

The Company leases office and laboratory space and certain equipment. Rent expense for the years ended October 31, 1996, 1995 and 1994 was approximately \$370,000, \$349,000 and \$328,000, respectively.

During 1994, the Company arranged for a lease line of credit of \$2,000,000 to purchase capital assets. The lease term under this line of credit is 48 months. The interest rate on these leases is based on a lease rate factor and approximates 15% per annum. Amounts outstanding under the capital leases are collateralized by the underlying property and equipment. The line of credit expired in December 1995 and was not renewed by the Company. Future minimum lease obligations as of October 31, 1996 under all leases are as follows (in thousands):

	Capital Leases	Operating Leases
	-----	-----
1997	\$ 295	\$ 397
1998	269	105
1999	93	16
	-----	-----
Total minimum lease payments	657	\$ 518
		=====
Less amount representing interest	(98)	

Present value of future lease payments	559	
Less current portion	(229)	

Noncurrent obligations under capital lease	\$ 330	
	=====	

10. Subsequent Events

In November 1996, the Company's Board of Directors approved the adoption of the 1996 Stock Option Plan which authorizes the issuance of 750,000 shares under the plan. This stock option plan is subject to shareholder approval.

LANDEC CORPORATION
VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

SCHEDULE II

	Balance at beginning of period -----	Additions charged to costs and expenses -----	Deductions -----	Balance at end of period -----
Year ended October 31, 1994				
Allowance for doubtful accounts.....	\$ --	\$ 18	\$ --	\$ 18
Year ended October 31, 1995				
Allowance for doubtful accounts.....	\$ 18	\$ 14	\$ --	\$ 32
Year ended October 31, 1996				
Allowance for doubtful accounts.....	\$ 32	\$ --	\$ --	\$ 32

(b) No reports on Form 8-K were filed by the Company during the period August 1, 1996 to October 31, 1996.

(c) Exhibits

- 3.1(1) Amended and Restated Bylaws of Registrant.
- 3.2(2) Ninth Amended and Restated Articles of Incorporation of Registrant.
- 4.1(3) Form of Common Stock Certificate.
- 10.1(3) Form of Indemnification Agreement.
- 10.2(3) 1988 Stock Option Plan and form of Option Agreements.
- 10.3 1995 Employee Stock Purchase Plan, as amended, and form of Subscription Agreement.
- 10.4 1995 Directors' Stock Option Plan, as amended, and form of Option Agreement.
- 10.5(3) Investors' Rights Agreement dated as of August 10, 1995 among the Registrant and certain security holders of the Registrant.
- 10.6(3) Industrial Real Estate Lease dated March 1, 1993 between the Registrant and Wayne R. Brown & Bibbits Brown, Trustees of the Wayne R. Brown & Bibbits Brown Living Trust dated December 30, 1987.
- 10.7(3) Agreement dated as of July 29, 1995 between the Registrant and the BFGoodrich Company.
- 10.8(3) License and Development Agreement dated as of August 10, 1995 between the Registrant and Hitachi Company, Ltd.
- 10.9(3) Technical License Agreement dated October 1, 1994 between the Registrant and Hitachi Co., Ltd.
- 10.10(3) Agreement dated March 14, 1995 between the Registrant and Nitta Corporation.
- 10.11(3) Note Purchase Agreement dated March 27, 1995 between the Registrant and H&Q Healthcare Investors and H&Q Life Sciences Investors, as amended by a Notice of Conversion dated December 20, 1995.
- 10.12(4) Agreement dated February 26, 1996 between the Registrant and Nitta Corporation.
- 10.13(4) Letter dated March 29, 1996 regarding the Agreement dated as of July 29, 1995 between the Registrant and BFGoodrich Company.
- 10.14 Consulting Agreement dated May 1, 1996 between the Registrant and Richard Dulude.
- 10.15 1996 Intellicoat Stock Option Plan and form of Option Agreements.
- 10.16 1996 Non-Executive Stock Option Plan and form of Option Agreements.
- 11.1 Calculation of Loss Per Share.
- 23.1 Consent of Independent Auditors.
- 24.1 Power of Attorney. See page 52.
- 27.1 Financial Data Schedule

-
- (1) Incorporated by reference to Exhibit 3.4 filed with Registrant's Registration statement on Form S-1 (File No. 33-80723) declared effective on February 12, 1996.
 - (2) Incorporated by reference to Exhibit 3.5 filed with Registrant's Registration statement on Form S-1 (File No. 33-80723) declared effective on February 12, 1996.
 - (3) Incorporated by reference to the identically numbered exhibits filed with the Registrant's Registration Statement on Form S-1 (File No. 33-80723) declared effective on February 12, 1996.
 - (4) Incorporated by reference to the identically numbered exhibits filed with the Registrant's Form 10-Q filed for the quarter ended April 30, 1996.

(d) Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Menlo Park, State of California, on January 29, 1997.

LANDEC CORPORATION

By: /s/ Joy T. Fry

 Joy T. Fry
 Vice President of Finance and
 Administration and Chief Financial Officer

POWER OF ATTORNEY

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

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

Signature -----	Title -----	Date ----
/s/ Gary T. Steele ----- Gary T. Steele	President and Chief Executive Officer (Principal Executive Officer)	January 29, 1997
/s/ Joy T. Fry ----- Joy T. Fry	Vice President of Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)	January 29, 1997
----- Mitchell J. Blutt	Director	January 29, 1997
/s/ Kirby L. Cramer ----- Kirby L. Cramer	Director	January 29, 1997
/s/ Richard Dulude ----- Richard Dulude	Director	January 29, 1997
/s/ Stephen E. Halprin ----- Stephen E. Halprin	Director	January 29, 1997
/s/ Richard S. Schneider ----- Richard S. Schneider	Director	January 29, 1997
/s/ Ray F. Stewart ----- Ray F. Stewart	Director	January 29, 1997

EXHIBIT INDEX

Exhibit Number -----	Exhibit Title -----
10.3	1995 Employee Stock Purchase Plan, as amended, and form of Subscription Agreement.
10.4	1995 Directors' Stock Option Plan, as amended, and form of Option Agreement.
10.14	Consulting Agreement dated May 1, 1996 between the Registrant and Richard Dulude.
10.15	1996 Intellicoat Stock Option Plan and form of option agreements.
11.1	Calculation of Loss Per Share.
23.1	Consent of Independent Auditors
27.1	Financial Data Schedule

Exhibit 10.3

LANDEC CORPORATION

1995 EMPLOYEE STOCK PURCHASE PLAN

(As Amended September 1996)

The following constitute the provisions of the 1995 Employee Stock Purchase Plan of Landec Corporation

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" shall mean the Common Stock of the Company.

(d) "Company" shall mean Landec Corporation, a California corporation.

(e) "Compensation" shall mean all regular straight time gross earnings, excluding payments for overtime, shift premium, incentive compensation, incentive payments, bonuses, commissions and other compensation.

(f) "Continuous Status as an Employee" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company, provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

(g) "Contributions" shall mean all amounts credited to the account of a participant pursuant to the Plan.

(h) "Designated Subsidiaries" shall mean the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(i) "Employee" shall mean any person, including an Officer, who is customarily employed for at least twenty (20) hours per week and more than five (5) months in a calendar year by the Company or one of its Designated Subsidiaries.

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(j) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(k) "Purchase Date" shall mean the last day of each Offering Period of the Plan.

(l) "Offering Date" shall mean the first business day of each Offering Period of the Plan, except that in the case of an individual who becomes an eligible Employee after the first business day of an Offering Period but prior to the first business day of the last calendar quarter of such Offering Period, the term "Offering Date" shall mean the first business day of the calendar quarter coinciding with or next succeeding the day on which that individual becomes an eligible Employee.

Options granted after the first business day of an Offering Period will be subject to the same terms as the options granted on the first business day of such Offering Period except that they will have a different grant date (thus, potentially, a different exercise price) and, because they expire at the same time as the options granted on the first business day of such Offering Period, a shorter term.

(m) "Offering Period" shall mean a period of twelve (12) months commencing on January 1 and July 1 of each year, except for the first Offering Period as set forth in Section 4(a).

(n) "Officer" shall mean a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(o) "Plan" shall mean this Employee Stock Purchase Plan.

(p) "Purchase Period" shall mean a period of six (6) months within an Offering Period, except for the first Purchase Period as set forth in Section 4(b).

(q) "Subsidiary" shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company

or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

3. Eligibility.

(a) Any person who is an Employee as of the Offering Date of a given Offering Period shall be eligible to participate in such Offering Period under the Plan, provided that such person was not eligible to participate in such Offering Period as of any prior Offering Date, and further, subject to the requirements of Section 5(a) and the limitations imposed by Section 423(b) of the Code.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing five

percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary of the Company, or (ii) if such option would permit his or her rights to purchase stock under all employee stock purchase plans (described in Section 423 of the Code) of the Company and its Subsidiaries to accrue at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) of fair market value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods and Purchase Periods.

(a) The Plan shall be implemented by a series of Offering Periods, of twelve (12) months duration with new Offering Periods commencing on or about December 1 and June 1 of each year (or at such other time or times as may be determined by the Board of Directors). The first Offering Period shall commence on the beginning of the effective date of the Registration Statement on Form S-1 for the initial public offering of the Company's Common Stock and continue until December 31, 1996 and the second Offering Period shall commence on January 1, 1997 and continue until November 30, 1996. The Plan shall continue until terminated in accordance with Section 20 hereof. The Board of Directors of the Company shall have the power to change the duration and/or the frequency of Offering Periods with respect to future offerings without shareholder approval if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first Offering Period to be affected.

(b) Purchase Periods. Each Offering Period shall consist of two (2) consecutive purchase periods of six (6) months duration, except as set forth below. The last day of each Purchase Period shall be the "Purchase Date" for such Purchase Period. A Purchase Period commencing on December 1 shall end on the next May 31. A Purchase Period commencing on June 1 shall end on the next November 30; provided, however, the first Purchase Period shall commence on the IPO Date and shall end on June 30, 1996; the second Purchase Period shall commence on July 1, 1996 and shall end on December 31, 1996; and the third Purchase Period shall commence on January 1, 1997 and end on May 31, 1997. The Board of Directors of the Company shall have the power to change the duration and/or frequency of Purchase Periods with respect to future purchases without shareholder approval if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first Purchase Period to be affected.

5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement on the form provided by the Company and filing it with the Company's payroll office prior to the applicable Offering Date, unless a later time for filing the subscription agreement is set by the Board for all eligible Employees with respect to a given offering. The subscription agreement shall set forth the percentage of the participant's Compensation (which shall be not less than 1% and not more than 10%) to be paid as Contributions pursuant to the Plan.

(b) Payroll deductions shall commence on the first payroll following the Offering Date and shall end on the last payroll paid on or prior to the last Purchase Date of the

offering to which the subscription agreement is applicable, unless sooner terminated by the participant as provided in Section 10.

6. Method of Payment of Contributions.

(a) The participant shall elect to have payroll deductions made on each payday during the Offering Period in an amount not less than one percent (1%) and not more than ten percent (10%) of such participant's Compensation on each such payday; provided that the aggregate of such payroll deductions during the Offering Period shall not exceed ten percent (10%) of the participant's aggregate Compensation during said Offering Period. All payroll deductions made by a participant shall be credited to his or her account under the Plan. A participant may not make any additional payments into such account.

(b) A participant may discontinue his or her participation in the Plan as provided in Section 10, or, on one occasion only during the Offering Period, may decrease the rate of his or her Contributions during the Offering Period by completing and filing with the Company a new subscription agreement. The change in rate shall be effective as of the beginning of the next calendar month following the date of filing of the new subscription agreement, if the agreement is filed at least ten (10) business days prior to such date and, if not, as of the beginning of the next succeeding calendar month.

(c) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) herein, a participant's payroll deductions may be decreased to 0% at such time during any Offering Period which is scheduled to end during the current calendar year that the aggregate of all payroll deductions accumulated with respect to such Offering Period equal \$21,250. Payroll deductions shall re-commence at the rate provided in such participant's subscription Agreement at the beginning of the first Offering Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10.

7. Grant of Option.

(a) On the Offering Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Purchase Date a number of shares of the Company's Common Stock determined by dividing such Employee's Contributions accumulated prior to such Purchase Date and retained in the participant's account as of the Purchase Date by the lower of (i) eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Offering Date, or (ii) eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Purchase Date; provided however, that the maximum number of shares an Employee may purchase during each Purchase Period shall be determined at the Offering Date by dividing \$12,500 by the fair market value of a share of the Company's Common Stock on the Offering Date, and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12. The fair market value of a share of the Company's Common Stock shall be determined as provided in Section 7(b).

(b) The option price per share of the shares offered in a given Offering Period shall be the lower of: (i) 85% of the fair market value of a share of the Common Stock of the Company on the Offering Date; or (ii) 85% of the fair market value of a share of the Common Stock of the Company on the Purchase Date. The fair market value of the Company's Common Stock on a given date shall be determined by the Board in its discretion based on the closing price of the Common Stock for such date (or, in the event that the Common Stock is not traded on such date, on the immediately preceding trading date), as reported by the National Association of Securities Dealers Automated Quotation (Nasdaq) National Market or, if such price is not reported, the mean of the bid and asked prices per share of the Common Stock as reported by Nasdaq or, in the event the Common Stock is listed on a stock exchange, the fair market value per share shall be the closing price on such exchange on such date (or, in the event that the Common Stock is not traded on such date, on the immediately preceding trading date), as reported in The Wall Street Journal. For purposes of the Offering Date under the first Offering Period under the Plan, the fair market value of a share of the Common Stock of the Company shall be the Price to Public as set forth in the final prospectus filed with the Securities and Exchange Commission pursuant to Rule 424 under the Securities Act of 1933, as amended.

8. Exercise of Option. Unless a participant withdraws from the Plan as provided in paragraph 10, his or her option for the purchase of shares will be exercised automatically on each Purchase Date of an Offering Period, and the maximum number of full shares subject to the option will be purchased at the applicable option price with the accumulated Contributions in his or her account. The shares purchased upon exercise of an option hereunder shall be deemed to be transferred to the participant on the Purchase Date. During his or her lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

9. Delivery. As promptly as practicable after each Purchase Date of each Offering Period, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the shares purchased upon exercise of his or her option. Any cash remaining to the credit of a participant's account under the Plan after a purchase by him or her of shares at the termination of each Purchase Period, or which is insufficient to purchase a full share of Common Stock of the Company, shall be carried over to the next Purchase Period if the Employee continues to participate in the Plan, or if the Employee does not continue to participate, shall be returned to said participant.

10. Voluntary Withdrawal; Termination of Employment.

(a) A participant may withdraw all but not less than all the Contributions credited to his or her account under the Plan at any time prior to each Purchase Date by giving written notice to the Company. All of the participant's Contributions credited to his or her account will be paid to him or her promptly after receipt of his or her notice of withdrawal and his or her option for the current period will be automatically terminated, and no further Contributions for the purchase of shares will be made during the Offering Period.

(b) Upon termination of the participant's Continuous Status as an Employee prior to a Purchase Date of an Offering Period for any reason, including retirement or death, the Contributions credited to his or her account will be returned to him or her or, in the case of his or

her death, to the person or persons entitled thereto under Section 15, and his or her option will be automatically terminated.

(c) In the event an Employee fails to remain in Continuous Status as an Employee of the Company for at least twenty (20) hours per week during the Offering Period in which the employee is a participant, he or she will be deemed to have elected to withdraw from the Plan and the Contributions credited to his or her account will be returned to him or her and his or her option terminated.

(d) A participant's withdrawal from an offering will not have any effect upon his or her eligibility to participate in a succeeding offering or in any similar plan which may hereafter be adopted by the Company.

11. Automatic Withdrawal. If the fair market value of the shares on the first Purchase Date of an Offering Period is less than the fair market value of the shares on the Offering Date for such Offering Period, then every participant shall automatically (i) be withdrawn from such Offering Period at the close of such Purchase Date and after the acquisition of shares for such Purchase Period, and (ii) be enrolled in the Offering Period commencing on the first business day subsequent to such Purchase Period.

12. Interest. No interest shall accrue on the Contributions of a participant in the Plan.

13. Stock.

(a) The maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be 300,000 shares, subject to adjustment upon changes in capitalization of the Company as provided in Section 19. If the total number of shares which would otherwise be subject to options granted pursuant to Section 7(a) on the Offering Date of an Offering Period exceeds the number of shares then available under the Plan (after deduction of all shares for which options have been exercised or are then outstanding), the Company shall make a pro rata allocation of the shares remaining available for option grant in as uniform a manner as shall be practicable and as it shall determine to be equitable. In such event, the Company shall give written notice of such reduction of the number of shares subject to the option to each Employee affected thereby and shall similarly reduce the rate of Contributions, if necessary.

(b) The participant will have no interest or voting right in shares covered by his or her option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his or her spouse.

14. Administration. The Board, or a committee named by the Board, shall supervise and administer the Plan and shall have full power to adopt, amend and rescind any rules deemed desirable and appropriate for the administration of the Plan and not inconsistent with the Plan, to construe and interpret the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. The composition of the committee shall be in accordance with the

requirements to obtain or retain any available exemption from the operation of Section 16(b) of the Exchange Act pursuant to Rule 16b-3 promulgated thereunder.

15. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of a Purchase Period but prior to delivery to him or her of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to the Purchase Date of the Offering Period. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant (and his or her spouse, if any) at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. Transferability. Neither Contributions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 15) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 10.

17. Use of Funds. All Contributions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such Contributions.

18. Reports. Individual accounts will be maintained for each participant in the Plan. Statements of account will be given to participating Employees promptly following each Purchase Date, which statements will set forth the amounts of Contributions, the per share purchase price, the number of shares purchased and the remaining cash balance, if any.

19. Adjustments Upon Changes in Capitalization; Corporate Transactions.

(a) Adjustment. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but have not yet been placed under option (collectively, the

"Reserves"), as well as the price per share of Common Stock covered by each option under the Plan which has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration". Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

(b) Corporate Transactions. In the event of the proposed dissolution or liquidation of the Company, the Offering Period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each option under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Board determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, to shorten the Offering Period then in progress by setting a new Purchase Date (the "New Purchase Date"). If the Board shortens the Offering Period then in progress in lieu of assumption or substitution in the event of a merger or sale of assets, the Board shall notify each participant in writing, at least ten (10) days prior to the New Purchase Date, that the Purchase Date for his or her option has been changed to the New Purchase Date and that his or her option will be exercised automatically on the New Purchase Date, unless prior to such date he or she has withdrawn from the Offering Period as provided in Section 10. For purposes of this paragraph, an option granted under the Plan shall be deemed to be assumed if, following the sale of assets or merger, the option confers the right to purchase, for each share of option stock subject to the option immediately prior to the sale of assets or merger, the consideration (whether stock, cash or other securities or property) received in the sale of assets or merger by holders of Common Stock for each share of Common Stock held on the effective date of the transaction (and if such holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, however, that if such consideration received in the sale of assets or merger was not solely common stock of the successor corporation or its parent (as defined in Section 424(e) of the Code), the Board may, with the consent of the successor corporation and the participant, provide for the consideration to be received upon exercise of the option to be solely common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Common Stock and the sale of assets or merger.

The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per share of Common Stock covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of its outstanding

Common Stock, and in the event of the Company being consolidated with or merged into any other corporation.

20. Amendment or Termination.

(a) The Board of Directors of the Company may at any time terminate or amend the Plan. Except as provided in Section 19, no such termination may affect options previously granted, nor may an amendment make any change in any option theretofore granted which adversely affects the rights of any participant. In addition, to the extent necessary to comply with Rule 16b-3 under the Exchange Act, or under Section 423 of the Code (or any successor rule or provision or any applicable law or regulation), the Company shall obtain shareholder approval in such a manner and to such a degree as so required.

(b) Without shareholder consent and without regard to whether any participant rights may be considered to have been adversely affected, the Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable which are consistent with the Plan.

21. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. Term of Plan; Effective Date. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the

Company. It shall continue in effect for a term of twenty (20) years unless sooner terminated under Section 20.

23. Additional Restrictions of Rule 16b-3. The terms and conditions of options granted hereunder to, and the purchase of shares by, persons subject to Section 16 of the Exchange Act shall comply with the applicable provisions of Rule 16b-3. This Plan shall be deemed to contain, and such options shall contain, and the shares issued upon exercise thereof shall be subject to, such additional conditions and restrictions as may be required by Rule 16b-3 to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

LANDEC CORPORATION

1995 EMPLOYEE STOCK PURCHASE PLAN
SUBSCRIPTION AGREEMENT

New Election _____
Change of Election _____

1. I, _____, hereby elect to participate in the Landec Corporation 1995 Employee Stock Purchase Plan (the "Plan") for the Offering Period _____, 19__ to _____, 19__, and subscribe to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Plan.

2. I elect to have Contributions in the amount of ____% of my Compensation, as those terms are defined in the Plan, applied to this purchase. I understand that this amount must not be less than 1% and not more than 10% of my Compensation during the Offering Period. (Please note that no fractional percentages are permitted).

3. I hereby authorize payroll deductions from each paycheck during the Offering Period at the rate stated in Item 2 of this Subscription Agreement. I understand that all payroll deductions made by me shall be credited to my account under the Plan and that I may not make any additional payments into such account. I understand that all payments made by me shall be accumulated for the purchase of shares of Common Stock at the applicable purchase price determined in accordance with the Plan. I further understand that, except as otherwise set forth in the Plan, shares will be purchased for me automatically on each Purchase Date of the Offering Period unless I otherwise withdraw from the Plan by giving written notice to the Company for such purpose.

4. I understand that I may discontinue at any time prior to a Purchase Date my participation in the Plan as provided in Section 10 of the Plan. I also understand that I can decrease the rate of my Contributions on one occasion only during any Offering Period by completing and filing a new Subscription Agreement with such decrease taking effect as of the beginning of the calendar month following the date of filing of the new Subscription Agreement, if filed at least ten (10) business days prior to the beginning of such month. Further, I may change the rate of deductions for future Offering Periods by filing a new Subscription Agreement, and any such change will be effective as of the beginning of the next Offering Period. In addition, I acknowledge that, unless I discontinue my participation in the Plan as provided in Section 10 of the Plan, my election will continue to be effective for each successive Offering Period.

5. I have received a copy of the Company's most recent description of the Plan and a copy of the complete "Landec Corporation 1995 Employee Stock Purchase Plan." I understand that my participation in the Plan is in all respects subject to the terms of the Plan.

6. Shares purchased for me under the Plan should be issued in the name(s) of (name of employee or employee and spouse only):

7. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due to me under the Plan:

NAME: (Please print)

(First) (Middle) (Last)

(Relationship)

(Address)

8. I understand that if I dispose of any shares received by me pursuant to the Plan within 2 years after the Offering Date (the first day of the Offering Period during which I purchased such shares) or within 1 year after the Purchase Date (the last day of the Offering Period), I will be treated for federal income tax purposes as having received ordinary compensation income at the time of such disposition in an amount equal to the excess of the fair market value of the shares on the Purchase Date over the price which I paid for the shares, regardless of whether I disposed of the shares at a price less than their fair market value at the Purchase Date. The remainder of the gain or loss, if any, recognized on such disposition will be treated as capital gain or loss.

I hereby agree to notify the Company in writing within 30 days after the date of any such disposition, and I will make adequate provision for federal, state or other tax withholding obligations, if any, which arise upon the disposition of the Common Stock. The Company may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to the sale or early disposition of Common Stock by me.

9. If I dispose of such shares at any time after expiration of the 2-year and 1-year holding periods, I understand that I will be treated for federal income tax purposes as having received compensation income only to the extent of an amount equal to the lesser of (1) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares under the option, or (2) 15% of the fair market value of the shares on the Offering Date. The remainder of the gain or loss, if any, recognized on such disposition will be treated as capital gain or loss.

I understand that this tax summary is only a summary and is subject to change. I further understand that I should consult a tax advisor concerning the tax implications of the purchase and sale of stock under the Plan.

10. I hereby agree to be bound by the terms of the Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Plan.

SIGNATURE: _____

SOCIAL SECURITY #: _____

DATE: _____

SPOUSE'S SIGNATURE (necessary if beneficiary is not spouse):

(Signature)

(Print name)

LANDEC CORPORATION
1995 EMPLOYEE STOCK PURCHASE PLAN
NOTICE OF WITHDRAWAL

I, _____, hereby elect to withdraw my participation in the Landec Corporation 1995 Employee Stock Purchase Plan (the "Plan") for the Offering Period _____. This withdrawal covers all Contributions credited to my account and is effective on the date designated below.

I understand that all Contributions credited to my account will be paid to me within ten (10) business days of receipt by the Company of this Notice of Withdrawal and that my option for the current period will automatically terminate, and that no further Contributions for the purchase of shares can be made by me during the Offering Period.

The undersigned further understands and agrees that he or she shall be eligible to participate in succeeding offering periods only by delivering to the Company a new Subscription Agreement.

If the undersigned is an Officer or Director of Landec Corporation or other person subject to Section 16 of the Securities Exchange Act of 1934, the undersigned further understands that under rules promulgated by the U.S. Securities and Exchange Commission he or she may not re-enroll in the Plan for a period of six (6) months after withdrawal.

Dated: _____

Signature of Employee

Social Security Number

LANDEC CORPORATION

1995 DIRECTORS' STOCK OPTION PLAN

As Amended June 1996

1. Purposes of the Plan. The purposes of this Directors' Stock Option Plan are to attract and retain the best available personnel for service as Directors of the Company, to provide additional incentive to the Outside Directors of the Company to serve as Directors, and to encourage their continued service on the Board.

All options granted hereunder shall be "nonstatutory stock options".

2. Definitions. As used herein, the following definitions shall apply:

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" shall mean the Common Stock of the Company.

(d) "Company" shall mean Landec Corporation, a California corporation.

(e) "Continuous Status as a Director" shall mean the absence of any interruption or termination of service as a Director.

(f) "Director" shall mean a member of the Board.

(g) "Employee" shall mean any person, including officers and directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a director's fee by the Company shall not be sufficient in and of itself to constitute "employment" by the Company.

(h) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(i) "Option" shall mean a stock option granted pursuant to the Plan. All options shall be nonstatutory stock options (i.e., options that are not intended to qualify as incentive stock options under Section 422 of the Code).

(j) "Optioned Stock" shall mean the Common Stock subject to an Option.

(k) "Optionee" shall mean an Outside Director who receives an Option.

(l) "Outside Director" shall mean a Director who is not an Employee.

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(m) "Parent" shall mean a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code.

(n) "Plan" shall mean this 1995 Directors' Stock Option Plan.

(o) "Share" shall mean a share of the Common Stock, as adjusted in accordance with Section 11 of the Plan.

(p) "Subsidiary" shall mean a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 11 of the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is 200,000 Shares (the "Pool") of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan. If Shares which were acquired upon exercise of an Option are subsequently repurchased by the Company, such Shares shall not in any event be returned to the Plan and shall not become available for future grant under the Plan.

4. Administration of and Grants of Options under the Plan.

(a) Administrator. Except as otherwise required herein, the Plan shall be administered by the Board.

(b) Procedure for Grants. All grants of Options hereunder shall be automatic and nondiscretionary and shall be made strictly in accordance with the following provisions:

(i) No person shall have any discretion to select

which Outside Directors shall be granted Options or to determine the number of Shares to be covered by Options granted to Outside Directors.

(ii) Each person who becomes an Outside Director after the effective date of the Plan, other than any person who has previously been granted an option by the Company to purchase shares under any stock option plan of the Company, shall be automatically granted an Option to purchase 20,000 Shares (the "First Option") on the date on which such person first becomes an Outside Director, whether through election by the shareholders of the Company or appointment by the Board of Directors to fill a vacancy.

(iii) Each Outside Director shall be automatically granted an Option to purchase 5,000 Shares ((a "Subsequent Option") on the date of each Annual Meeting of the Company's shareholders at which such Outside Director is elected, provided that, on such date, he or she shall have served on the Board for at least six (6) months prior to the date of such Annual Meeting.

(iv) Notwithstanding the provisions of subsections (ii) and (iii) hereof, in the event that a grant would cause the number of Shares subject to outstanding Options plus the number of Shares previously purchased upon exercise of Options to exceed the Pool, then each such automatic grant shall be for that number of Shares determined by dividing the total number of Shares remaining available for grant by the number of Outside Directors receiving an Option on such date on the automatic grant date. Any further grants shall then be deferred until such time, if any, as additional Shares become available for grant under the Plan through action of the shareholders to increase the number of Shares which may be issued under the Plan or through cancellation or expiration of Options previously granted hereunder.

(v) Notwithstanding the provisions of subsections (ii) and (iii) hereof, any grant of an Option made before the Company has obtained shareholder approval of the Plan in accordance with Section 17 hereof shall be conditioned upon obtaining such shareholder approval of the Plan in accordance with Section 17 hereof.

(vi) The terms of each First Option granted hereunder shall be as follows:

(1) the First Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in Section 9 hereof.

(2) the exercise price per Share shall be 100% of the fair market value per Share on the date of grant of the First Option, determined in accordance with Section 8 hereof.

(3) the First Option shall be exercisable in full on the date of grant of the Option.

(vii) The terms of each Subsequent Option granted hereunder shall be as follows:

(1) the Subsequent Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in Section 9 hereof.

(2) the exercise price per Share shall be 100% of the fair market value per Share on the date of grant of the Subsequent Option, determined in accordance with Section 8 hereof.

(3) the Subsequent Option shall be exercisable in full on the date of grant of the Subsequent Option.

(c) Powers of the Board. Subject to the provisions and restrictions of the Plan, the Board shall have the authority, in its discretion: (i) to determine, upon review of relevant information and in accordance with Section 8(b) of the Plan, the fair market value of the Common Stock; (ii) to determine the exercise price per share of Options to be granted, which exercise price shall be determined in accordance with Section 8(a) of the Plan; (iii) to interpret the Plan; (iv) to prescribe, amend and rescind rules and regulations relating to the Plan; (v) to

authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option previously granted hereunder; and (vi) to make all other determinations deemed necessary or advisable for the administration of the Plan.

(d) Effect of Board's Decision. All decisions, determinations and interpretations of the Board shall be final and binding on all Optionees and any other holders of any Options granted under the Plan.

(e) Suspension or Termination of Option. If the President or his or her designee reasonably believes that an Optionee has committed an act of misconduct, the President may suspend the Optionee's right to exercise any option pending a determination by the Board of Directors (excluding the Outside Director accused of such misconduct). If the Board of Directors (excluding the Outside Director accused of such misconduct) determines an Optionee has committed an act of embezzlement, fraud, dishonesty, nonpayment of an obligation owed to the Company, breach of fiduciary duty or deliberate disregard of the Company rules resulting in loss, damage or injury to the Company, or if an Optionee makes an unauthorized disclosure of any Company trade secret or confidential information, engages in any conduct constituting unfair competition, induces any Company customer to breach a contract with the Company or induces any principal for whom the Company acts as agent to terminate such agency relationship, neither the Optionee nor his or her estate shall be entitled to exercise any option whatsoever. In making such determination, the Board of Directors (excluding the Outside Director accused of such misconduct) shall act fairly and shall give the Optionee an opportunity to appear and present evidence on Optionee's behalf at a hearing before the Board or a committee of the Board.

5. Eligibility. Options may be granted only to Outside Directors. All Options shall be automatically granted in accordance with the terms set forth in Section 4(b) hereof. An Outside Director who has been granted an Option may, if he or she is otherwise eligible, be granted an additional Option or Options in accordance with such provisions.

The Plan shall not confer upon any Optionee any right with respect to continuation of service as a Director or nomination to serve as a Director, nor shall it interfere in any way with any rights which the Director or the Company may have to terminate his or her directorship at any time.

6. Term of Plan; Effective Date. The Plan shall become effective on the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 13 of the Plan.

7. Term of Options. The term of each Option shall be ten (10) years from the date of grant thereof.

8. Exercise Price and Consideration.

(a) Exercise Price. The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be 100% of the fair market value per Share on the date of grant of the Option.

(b) Fair Market Value. The fair market value shall be determined by the Board; provided, however, that where there is a public market for the Common Stock, the fair market value per Share shall be the mean of the bid and asked prices of the Common Stock in the over-the-counter market on the date of grant, as reported in The Wall Street Journal (or, if not so reported, as otherwise reported by the National Association of Securities Dealers Automated Quotation ("Nasdaq") System) or, in the event the Common Stock is traded on the Nasdaq National Market or listed on a stock exchange, the fair market value per Share shall be the closing price on such system or exchange on the date of grant of the Option, as reported in The Wall Street Journal. With respect to any Options granted hereunder concurrently with the initial effectiveness of the Plan, the fair market value shall be the Price to Public as set forth in the final prospectus relating to such initial public offering.

(c) Form of Consideration. The consideration to be paid for the Shares to be issued upon exercise of an Option shall consist entirely of cash, check, other Shares of Common Stock having a fair market value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised (which, if acquired from the Company, shall have been held for at least six months), or any combination of such methods of payment and/or any other consideration or method of payment as shall be permitted under applicable corporate law.

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable at such times as are set forth in Section 4(b) hereof; provided, however, that no Options shall be exercisable prior to shareholder approval of the Plan in accordance with Section 17 hereof has been obtained.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may consist of any consideration and method of payment allowable under Section 8(c) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. A share certificate for the number of Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Status as a Director. If an Outside Director ceases to serve as a Director, he or she may, but only within ninety (90) days after the date he or she ceases to be a Director of the Company, exercise his or her Option to the extent that he or she was entitled to exercise it at the date of such termination. Notwithstanding the foregoing, in no event may the Option be exercised after its term set forth in Section 7 has expired. To the extent that such Outside Director was not entitled to exercise an Option at the date of such termination, or does not exercise such Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate.

(c) Disability of Optionee. Notwithstanding Section 9(b) above, in the event a Director is unable to continue his or her service as a Director with the Company as a result of his or her total and permanent disability (as defined in Section 22(e)(3) of the Internal Revenue Code), he or she may, but only within six (6) months (or such other period of time not exceeding twelve (12) months as is determined by the Board) from the date of such termination, exercise his or her Option to the extent he or she was entitled to exercise it at the date of such termination. Notwithstanding the foregoing, in no event may the Option be exercised after its term set forth in Section 7 has expired. To the extent that he or she was not entitled to exercise the Option at the date of termination, or if he or she does not exercise such Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate.

(d) Death of Optionee. In the event of the death of an Optionee:

(i) During the term of the Option who is, at the time of his or her death, a Director of the Company and who shall have been in Continuous Status as a Director since the date of grant of the Option, the Option may be exercised, at any time within six (6) months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Optionee continued living and remained in Continuous Status as Director for six (6) months (or such lesser period of time as is determined by the Board) after the date of death. Notwithstanding the foregoing, in no event may the Option be exercised after its term set forth in Section 7 has expired.

(ii) Within three (3) months after the termination of Continuous Status as a Director, the Option may be exercised, at any time within six (6) months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination. Notwithstanding the foregoing, in no event may the option be exercised after its term set forth in Section 7 has expired.

10. Nontransferability of Options. The Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution or pursuant to a qualified domestic relations order (as defined by the Code

or the rules thereunder). The designation of a beneficiary by an Optionee does not constitute a transfer. An Option may be exercised during the lifetime of an Optionee only by the Optionee or a transferee permitted by this Section.

11. Adjustments Upon Changes in Capitalization; Corporate Transactions.

(a) Adjustment. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

(b) Corporate Transactions. In the event of (i) a dissolution or liquidation of the Company, (ii) a sale of all or substantially all of the Company's assets, (iii) a merger or consolidation in which the Company is not the surviving corporation, or (iv) any other capital reorganization in which more than fifty percent (50%) of the shares of the Company entitled to vote are exchanged, the Company shall give to the Eligible Director, at the time of adoption of the plan for liquidation, dissolution, sale, merger, consolidation or reorganization, either a reasonable time thereafter within which to exercise the Option prior to the effectiveness of such liquidation, dissolution, sale, merger, consolidation or reorganization, at the end of which time the Option shall terminate, or the right to exercise the Option (or receive a substitute option with comparable terms) as to an equivalent number of shares of stock of the corporation succeeding the Company or acquiring its business by reason of such liquidation, dissolution, sale, merger, consolidation or reorganization.

12. Time of Granting Options. The date of grant of an Option shall, for all purposes, be the date determined in accordance with Section 4(b) hereof. Notice of the determination shall be given to each Outside Director to whom an Option is so granted within a reasonable time after the date of such grant.

13. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may amend or terminate the Plan from time to time in such respects as the Board may deem advisable; provided that, to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act (or any other

applicable law or regulation), the Company shall obtain approval of the shareholders of the Company to Plan amendments to the extent and in the manner required by such law or regulation. Notwithstanding the foregoing, the provisions set forth in Section 4 of this Plan (and any other Sections of this Plan that affect the formula award terms required to be specified in this Plan by Rule 16b-3) shall not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

(b) Effect of Amendment or Termination. Any such amendment or termination of the Plan that would impair the rights of any Optionee shall not affect Options already granted to such Optionee and such Options shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company.

14. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, state securities laws, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares, if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

15. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

16. Option Agreement. Options shall be evidenced by written option agreements in such form as the Board shall approve.

17. Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Company at or prior to the first annual meeting of shareholders held subsequent to the granting of an Option hereunder. If such shareholder approval is obtained at a duly held shareholders' meeting, it may be obtained by the affirmative vote of the holders of a majority of the outstanding shares of the Company present or represented and entitled to vote thereon. If such shareholder approval is obtained by written consent, it may be obtained by the written consent of the holders of a majority of the outstanding shares of the Company. Options may be granted, but not exercised, before such shareholder approval.

LANDEC CORPORATION

1995 DIRECTORS' STOCK OPTION PLAN

DIRECTOR NONSTATUTORY STOCK OPTION AGREEMENT

Optionee: Optionee

Address: StreetAddress
StreetAddress2
CityAddress

Total Shares Subject to Option: Shares

Exercise Price Per Share: PricePerShare

Date of Grant: GrantDate

Expiration Date: ExpirationDate

Type of Stock Option: Nonstatutory Stock Option

1. Grant of Option. Landec Corporation (the "Company"), a California corporation, hereby grants to the Optionee named above ("Optionee") an option (the "Option") to purchase a total of up to SharesSpelledOut (Shares) shares of Common Stock of the Company (the "Shares") at the exercise price per share set forth above (the "Exercise Price"), subject to all of the terms and conditions of this Director Nonstatutory Stock Option Agreement ("Agreement") and the Company's 1995 Directors' Stock Option Plan (the "Plan"). The terms defined in the Plan shall have the same defined meanings herein.

A. Nature of the Option. This Option is a nonstatutory stock option and is not intended to qualify for any special tax benefits to the Optionee.

B. Exercise Price. The exercise price is PricePerShare for each share of Common Stock, which is 100% of the Fair Market Value of the Common Stock as determined on the date of grant of this Option.

2. Exercise Period of Option. Subject to the terms and conditions of the Plan and this Grant, this Option shall become exercisable as follows:

100% of the Option shall become exercisable on GrantDate.

3. Restrictions on Exercise. Exercise of this Option is subject to the following limitations:

A. This Option may not be exercised unless such exercise is in compliance with the Securities Act of 1933, as amended, and all applicable state securities laws, as they are in effect on the date of exercise.

B. If, at the time of the exercise of this Option, the Optionee is subject to Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), then the Optionee must comply with Rule 16b-3 under the Exchange Act and such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

4. Termination of Status as a Director. If an Outside Director ceases to serve as a Director for any reason other than death or disability, he or she may, but only within ninety (90) days after the date he or she ceases to be a Director of the Company, exercise his or her Option to the extent that he or she was entitled to exercise it at the date of such termination. To the extent that he or she was not entitled to exercise an Option at the date of such termination, or if he or she does not exercise such Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate.

5. Disability of Director. Notwithstanding Section 4 above, in the event an Outside Director is unable to continue his or her service as a Director with the Company as a result of total and permanent disability (as defined in Section 22(e)(3) of the Code), he or she may, but only within six (6) months from the date of termination of such service (but in no event later than the date of expiration of the term of this Option as set forth in the Notice of Stock Option Grant), exercise the Option to the extent otherwise so entitled at the date of such termination. To the extent that he or she was not entitled to exercise the Option at the date of termination, or if he or she does not exercise such Option (to the extent otherwise so entitled) within the time specified in this Agreement, the Option shall terminate.

6. Death of Director. Notwithstanding Section 4 above, in the event of the death an Outside Director while serving as a Director of the Company or within three (3) months of terminating such service, the Option may be exercised, at any time within six (6) months following the date of death (but in no event later than the date of expiration of the term of this Option as set forth in the Notice of Stock Option Grant), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance to the extent the Optionee was entitled to exercise such Option on the date of death, provided, however, that if the Director dies while serving as a Director, the Option will be exercisable to the extent of the right to exercise that would have accrued had the Director continued living and serving as a Director for six (6) months after the date of death.

7. Manner of Exercise.

A. This Option shall be exercisable by delivery to the Company of an executed written Director Stock Option Exercise Notice and Agreement in the form attached hereto as Exhibit A, or in such other form as may be approved by the Company, which shall set forth Optionee's election to exercise this Option, the number of Shares being purchased, any restrictions imposed on the Shares and such other representations and agreements regarding Optionee's investment intent and access to information as may be required by the Company to comply with applicable securities laws.

B. The Director Stock Option Exercise Notice and Agreement shall be accompanied by full payment of the Exercise Price for the Shares being purchased (I) in cash, (ii) by check, (iii) by delivery of other shares of Common Stock having a fair market value on the date of surrender equal to the aggregate exercise price of the Shares being purchased (which, if acquired from the Company, shall have been held for at least six months) or (iv) by any combination of the foregoing methods of payment.

C. Prior to the issuance of the Shares upon exercise of this Option, Optionee must pay or make adequate provision for any applicable federal or state withholding obligations of the Company.

D. Provided that such notice and payment are in form and substance satisfactory to counsel for the Company, the Company shall issue the Shares registered in the name of Optionee or Optionee's legal representative.

8. Compliance with Laws and Regulations. The issuance and transfer of Shares shall be subject to compliance by the Company and the Optionee with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Company's Common Stock may be listed at the time of such issuance or transfer. Optionee understands that the Company is under no obligation to register or qualify the Shares with the Securities and Exchange Commission, any state securities commission or any stock exchange to effect such compliance.

9. Nontransferability of Option. This Option may not be transferred in any manner other than by will or by the laws of descent and distribution or pursuant to a domestic relations order (as defined by the Code or the rules thereunder) and may be exercised during the lifetime of the Optionee only by the Optionee or a transferee permitted by Section 10 of the Plan. The terms of this option shall be binding upon the executors, administrators, successors and assigns of the Optionee.

10. Federal Tax Consequences. Set forth below is a brief summary as of the date of this Option of some of the federal tax consequences of exercise of this Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT HIS OR HER OWN TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES. THIS SUMMARY DOES NOT DISCUSS STATE OR LOCAL TAX CONSEQUENCES OF EXERCISE OF THIS OPTION AND DISPOSITION OF THE SHARES.

A. Taxation Upon Exercise of Option. Optionee understands that, upon exercise of this Option, he or she will recognize income for tax purposes in an amount equal to the excess of the then fair market value of the Shares purchased over the exercise price paid for such Shares. Since the Optionee is likely to be subject to Section 16(b) of the Securities Exchange Act of 1934, as amended, the measurement and timing of such income may be deferred, and the Optionee is advised to contact a tax adviser concerning the desirability of filing an 83(b) election in connection with the exercise of the Option. Upon a resale of such Shares by the

Optionee, any difference between the sale price and the exercise price of the Shares, to the extent not included in income as described above, will be treated as capital gain or loss, which will be long-term if the shares have been held for more than one year.

11. Interpretation. Any dispute regarding the interpretation of this agreement shall be submitted by Optionee or the Company forthwith to the Company's Board of Directors or the committee thereof that administers the Plan, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Board or committee shall be final and binding on the Company and on Optionee.

12. Entire Agreement. The Plan and the Director Stock Option Exercise Notice and Agreement attached as Exhibit A are incorporated herein by reference. This Grant, the Plan and the Director Stock Option Exercise Notice and Agreement constitute the entire agreement of the parties regarding the Option and supersede all prior undertakings and agreements with respect to the subject matter hereof.

LANDEC CORPORATION

By: _____

Its: _____

ACCEPTANCE

Optionee hereby acknowledges receipt of a copy of the Plan, represents that Optionee has read and understands the terms and provisions thereof, and accepts this Option subject to all the terms and conditions of the Plan and this Grant. Optionee acknowledges that there may be adverse tax consequences upon exercise of this Option or disposition of the Shares and that Optionee should consult a tax adviser prior to such exercise or disposition.

Optionee

EXHIBIT A

DIRECTOR NONSTATUTORY STOCK OPTION EXERCISE NOTICE AND AGREEMENT

Landec Corporation
3603 Haven Avenue
Menlo Park, CA 94025

Attention: Chief Financial Officer

1. Exercise of Option. The undersigned ("Optionee") hereby elects to exercise Optionee's option to purchase _____ shares of the Common Stock (the "Shares") of Landec Corporation (the "Company") under and pursuant to the Company's 1995 Directors' Stock Option Plan and the Director Nonstatutory Stock Option Agreement dated GrantDate (the "Grant Agreement").

2. Representations of Optionee. Optionee acknowledges that Optionee has received, read and understood the Grant Agreement.

3. Federal Restrictions on Transfer. Optionee understands that the Shares must be held indefinitely unless they are registered under the Securities Act of 1933, as amended (the "1933 Act") or unless an exemption from such registration is available and that the certificate(s) representing the Shares may bear a legend to that effect. Optionee understands that the Company is under no obligation to register the Shares and that an exemption may not be available or may not permit Optionee to transfer Shares in the amounts or at the times proposed by Optionee.

4. Tax Consequences. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultant(s) Optionee deems advisable in connection with the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

5. Delivery of Payment. Optionee herewith delivers to the Company the aggregate purchase price for the Shares that Optionee has elected to purchase and has made provision for the payment of any federal or state withholding taxes required to be paid or withheld by the Company.

6. Entire Agreement. The Grant Agreement is incorporated herein by reference. This Agreement and the Grant Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof. This Agreement and the Grant Agreement are governed by California law except for that body of law pertaining to conflict of laws.

Submitted by: Accepted by:

OPTIONEE: LANDEC CORPORATION

By: _____

Optionee

Its: _____

Address:

StreetAddress
StreetAddress2
CityAddress

Dated: _____ Dated: _____

LANDEC CORPORATION
CONSULTING AGREEMENT

Richard Dulude
507 Welch Road
Corning, NY 14830

Dear Dick:

1. Landec Corporation, a California Corporation, (the "Company") wishes to obtain your services as a consultant beginning May 1, 1996 on projects agreed by you and the Company in writing. This letter will constitute an agreement between you and the Company and contains all the terms and conditions relating to the services you are to provide.

2. During this agreement you will make yourself available to provide up to three (3) full days of consulting services to the Company per year, which may be increased upon our mutual consent.

3. You will provide Landec with the following services: (i) advising the Company regarding potential U.S. commercial activities for the Company's industrial products, (ii) advising the Company regarding its European partner strategy and (iii) other areas by mutual agreement.

4. As consideration for your services and other obligations, you will receive in cash \$30,000 per year to be paid at the end of the earlier of the second year or the termination of this agreement. As additional consideration, you will be granted a nonstatutory stock option to purchase 4,000 shares of the Company's Common Stock at fair market value on the date of grant, which will vest at the rate of 1/24th of the shares per month. Vesting of the option will continue until this agreement is terminated. The stock option will be subject to a right of first refusal of the Company with respect to transfers of the underlying Common Stock and will have a term of ten years. The stock option will be in the form of the Company's standard option agreement which will be signed by you and the Company.

5. The term of this agreement shall be two (2) years. However, either party may terminate this agreement at any time for any reason upon thirty (30) days written notice. At the end of such two year period, the parties will discuss extending the term of this agreement.

6. You will be reimbursed for reasonable travel and other out-of-pocket expenses incurred by you at the request of the Company in connection with your services under this agreement, provided that you provide the Company with receipts for such expenses.

7. Your relationship with the Company will be that of an independent contractor and not that of an employee. You will not be eligible for any employee benefits, nor will the Company make deductions from payments made to you for taxes, which will be your responsibility. You will have no authority to enter into contracts which bind the Company or create obligations on the part of the Company without the express prior authorization of the Company.

8. You will keep in confidence and will not disclose or make available to third parties or make any use of any information or documents relating to your services under this agreement or to the products, methods of manufacture, trade secrets, processes, business or affairs or confidential or proprietary information of the Company (other than information in the public domain through no fault of your own), except with the prior written consent of the Company or to the extent necessary in performing tasks assigned to you by the Company. Upon termination of this agreement you will return to Company all documents, and other materials related to the services provided hereunder or furnished to you by the Company. Your obligations under this Paragraph 8 will terminate five (5) years after termination of this agreement.

9. Any amendment to this agreement must be in writing signed by you and the Company.

10. All notices, requests and other communications called for by this agreement will be deemed to have been given if made in writing and mailed, postage prepaid, if to you at the address set forth above and if to the Company at 3603 Haven Avenue, Menlo Park, California 94025, or to such other addresses as either party specifies to the other.

11. The validity, performance and construction of this agreement will be governed by the laws of the State of California.

12. Your obligations under paragraph 8 will survive termination of this agreement. This agreement supersedes any prior consulting or other agreements between you and the Company with respect to the subject matter hereof.

If this agreement is satisfactory, you should execute and return the original and one copy to us, retaining the third copy for your file.

Dated as of: May 1, 1996

Very truly yours,

/s/ Gary T. Steele

Gary T. Steele

AGREED AND ACCEPTED:

/s/ Richard Dulude

Richard Dulude

INTELLICOAT CORPORATION

1996 STOCK PLAN

1. Purposes of the Plan. The purposes of this 1996 Stock Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees and Consultants of the Company and its Subsidiaries and to promote the success of the Company's business. Options granted under the Plan may be incentive stock options (as defined under Section 422 of the Code) or nonstatutory stock options, as determined by the Administrator at the time of grant of an option and subject to the applicable provisions of Section 422 of the Code, as amended, and the regulations promulgated thereunder. Stock purchase rights may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees appointed pursuant to Section 4 of the Plan.

(b) "Board" means the Board of Directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended.

(d) "Committee" means the Committee appointed by the Board of Directors in accordance with Section 4(a) of the Plan.

(e) "Common Stock" means the Common Stock of the Company.

(f) "Company" means Intellicoat Corporation, a Delaware corporation.

(g) "Consultant" means any person, including an advisor, who is engaged by the Company or any Parent or Subsidiary to render services and is compensated for such services, and any director of the Company whether compensated for such services or not.

(h) "Continuous Status as an Employee or Consultant" means the absence of any interruption or termination of service as an Employee or Consultant. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of: (i) sick leave; (ii) military leave; (iii) any other leave of absence approved by the Administrator, provided that such leave is for a period of not more than ninety (90) days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Company policy adopted from time to time; or (iv) in the case of transfers between locations of the Company or between the Company, its Subsidiaries or their respective successors. For purposes of this Plan, a change in status from an Employee to a Consultant or from a Consultant to an Employee will not constitute an interruption of Continuous Status as an Employee or Consultant.

(i) "Employee" means any person, including officers and directors, employed by the Company or any Parent or Subsidiary of the Company, with the status of employment determined based upon such minimum number of hours or periods worked as shall be determined by the Administrator in its discretion, subject to any requirements of the Code. The payment by the Company of a director's fee to a Director shall not be sufficient to constitute "employment" of such Director by the Company.

(j) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(k) "Fair Market Value" means, as of any date, the fair market value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the National Market of the National Association of Securities Dealers, Inc. Automated Quotation ("Nasdaq") System, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported), as quoted on such system or exchange, or the exchange with the greatest volume of trading in Common Stock for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is quoted on the Nasdaq System (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(l) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code, as designated in the applicable written option agreement.

(m) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option, as designated in the applicable written option agreement.

(n) "Option" means a stock option granted pursuant to the Plan.

(o) "Optioned Stock" means the Common Stock subject to an Option or a Stock Purchase Right.

(p) "Optionee" means an Employee or Consultant who receives an Option or a Stock Purchase Right.

(q) "Parent" means a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code, or any successor provision.

(r) "Plan" means this 1996 Stock Plan.

(s) "Reporting Person" means an officer, director, or greater than ten percent stockholder of the Company within the meaning of Rule 16a-2 under the Exchange Act, who is required to file reports pursuant to Rule 16a-3 under the Exchange Act.

(t) "Restricted Stock" means shares of Common Stock acquired pursuant to a grant of a Stock Purchase Right under Section 10 below.

(u) "Rule 16b-3" means Rule 16b-3 promulgated under the Exchange Act, as the same may be amended from time to time, or any successor provision.

(v) "Share" means a share of the Common Stock, as adjusted in accordance with Section 12 of the Plan.

(w) "Stock Exchange" means any stock exchange or consolidated stock price reporting system on which prices for the Common Stock are quoted at any given time.

(x) "Stock Purchase Right" means the right to purchase Common Stock pursuant to Section 10 below.

(y) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code, or any successor provision.

3. Stock Subject to the Plan. Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of Shares that may be optioned and sold under the Plan is two million (2,000,000) shares of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock. If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares that were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan. In addition, any Shares of Common Stock which are retained by the Company upon exercise of an Option or Stock Purchase Right in order to satisfy the exercise or purchase price for such Option or Stock Purchase Right or any withholding taxes due with respect to such exercise shall be treated as not issued and shall continue to be available under the Plan. Shares repurchased by the Company pursuant to any repurchase right which the Company may have shall not be available for future grant under the Plan.

4. Administration of the Plan.

(a) Initial Plan Procedure. Prior to the date, if any, upon which the Company becomes subject to the Exchange Act, the Plan shall be administered by the Board or a committee appointed by the Board.

(b) Plan Procedure After the Date, if any, Upon Which the Company Becomes Subject to the Exchange Act.

(i) Multiple Administrative Bodies. If permitted by Rule 16b-3, grants under the Plan may be made by different bodies with respect to directors, non-director officers and Employees or Consultants who are not Reporting Persons.

(ii) Administration With Respect to Reporting Persons. With respect to grants of Options or Stock Purchase Rights to Employees who are Reporting Persons,

such grants shall be made by (A) the Board if the Board may make grants to Reporting Persons under the Plan in compliance with Rule 16b-3, or (B) a committee designated by the Board to make such grants under the Plan, which committee shall be constituted in such a manner as to permit grants under the Plan to comply with Rule 16b-3. Once appointed, such committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the committee and thereafter directly make grants to Reporting Persons under the Plan, all to the extent permitted by Rule 16b-3.

(iii) Administration With Respect to Consultants and Other Employees. With respect to grants of Options or Stock Purchase Rights to Employees or Consultants who are not Reporting Persons, the Plan shall be administered by (A) the Board or (B) a committee designated by the Board, which committee shall be constituted in such a manner as to satisfy the legal requirements relating to the administration of incentive stock option plans, if any, of California corporate and securities laws, of the Code and of any applicable Stock Exchange (the "Applicable Laws"). Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.

(c) Powers of the Administrator. Subject to the provisions of the Plan and in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, including the approval, if required, of any Stock Exchange, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(k) of the Plan;

(ii) to select the Consultants and Employees to whom Options and Stock Purchase Rights may from time to time be granted hereunder;

(iii) to determine whether and to what extent Options and Stock Purchase Rights or any combination thereof are granted hereunder;

(iv) to determine the number of shares of Common Stock to be covered by each such award granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder;

(vii) to determine whether and under what circumstances an Option may be settled in cash under Section 9(f) instead of Common Stock;

(viii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option shall have declined since the date the Option was granted;

(ix) to determine the terms and restrictions applicable to Stock Purchase Rights and the Restricted Stock purchased by exercising such Stock Purchase Rights; and

(x) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan; and

(xi) in order to fulfill the purposes of the Plan and without amending the Plan, to modify grants of Options or Stock Purchase Rights to participants who are foreign nationals or employed outside of the United States in order to recognize differences in local law, tax policies or customs.

(d) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all holders of Options or Stock Purchase Rights.

5. Eligibility.

(a) Recipients of Grants. Nonstatutory Stock Options and Stock Purchase Rights may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. An Employee or Consultant who has been granted an Option or Stock Purchase Right may, if he or she is otherwise eligible, be granted additional Options or Stock Purchase Rights.

(b) Type of Option. Each Option shall be designated in the written option agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designations, to the extent that the aggregate Fair Market Value of Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Optionee during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds \$100,000, such excess Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares subject to an Incentive Stock Option shall be determined as of the date of the grant of such Option.

(c) The Plan shall not confer upon any Optionee any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with such Optionee's right or the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.

6. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the stockholders of the Company as described in Section 19 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 15 of the Plan.

7. Term of Option. The term of each Option shall be the term stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement and provided

further that, in the case of an Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the written option agreement.

8. Option Exercise Price and Consideration.

(a) The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Board and set forth in the applicable agreement, but shall be subject to the following:

(i) In the case of an Incentive Stock Option that is:

(A) granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option that is:

(A) granted to a person who, at the time of the grant of such Option, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of the grant.

(B) granted to any person, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant) and may consist entirely of (1) cash, (2) check, (3) authorization for the Company to retain from the total number of Shares as to which the Option is exercised that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to which the Option is exercised, (4) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price and any applicable income or employment taxes, (5) any combination of the foregoing methods of payment, or (6) such other consideration and method of payment for the issuance of Shares to the extent permitted under Applicable Laws. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator, and reflected in the written option agreement, which may include vesting requirements and/or performance criteria with respect to the Company and/or the Optionee; provided that such Option shall become exercisable at the rate of at least twenty percent (20%) per year over five (5) years from the date the Option is granted. In the event that any of the Shares issued upon exercise of an Option should be subject to a right of repurchase in the Company's favor, such repurchase right shall lapse at the rate of at least twenty percent (20%) per year over five (5) years from the date the Option is granted.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and the Company has received full payment for the Shares with respect to which the Option is exercised. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 8(b) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, not withstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 12 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares that thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Employment or Consulting Relationship. Subject to Section 9(c), in the event of termination of an Optionee's Continuous Status as an Employee or Consultant with the Company, such Optionee may, but only within three (3) months (or such other period of time not less than thirty (30) days as is determined by the Administrator, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option and not exceeding three (3) months) after the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent that the Optionee was entitled to exercise it at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of such termination, or if Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate. No termination shall be deemed to occur and this Section 9(b) shall not apply if (i) the Optionee is a Consultant who becomes an Employee; or (ii) the Optionee is an Employee who becomes a Consultant.

(c) Disability of Optionee.

(i) Notwithstanding Section 9(b) above, in the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of his or her total and

permanent disability (within the meaning of Section 22(e)(3) of the Code), Optionee may, but only within twelve (12) months from the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate.

(ii) In the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of a disability which does not fall within the meaning of total and permanent disability (as set forth in Section 22(e)(3) of the Code), Optionee may, but only within six (6) months from the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. However, to the extent that such Optionee fails to exercise an Option which is an Incentive Stock Option ("ISO") (within the meaning of Section 422 of the Code) within three (3) months of the date of such termination, the Option will not qualify for ISO treatment under the Code. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option to the extent so entitled within six months (6) from the date of termination, the Option shall terminate.

(d) Death of Optionee. In the event of the death of an Optionee during the period of Continuous Status as an Employee or Consultant since the date of grant of the Option, or within thirty (30) days following termination of Optionee's Continuous Status as an Employee or Consultant, the Option may be exercised, at any time within six (6) months following the date of death (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of death or, if earlier, the date of termination of Optionee's Continuous Status as an Employee or Consultant. To the extent that Optionee was not entitled to exercise the Option at the date of death or termination, as the case may be, or if Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate.

(e) Rule 16b-3. Options granted to Reporting Persons shall comply with Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption for Plan transactions.

(f) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Option previously granted, based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

10. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase,

the price to be paid (which price shall not be less than 85% of the Fair Market Value of the Shares as of the date of the offer, or, in the case of a person owning stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the price shall not be less than one hundred percent (100%) of the Fair Market Value of the Shares as of the date of the offer), and the time within which such person must accept such offer, which shall in no event exceed thirty (30) days from the date upon which the Administrator made the determination to grant the Stock Purchase Right. The offer shall be accepted by execution of a Restricted Stock purchase agreement in the form determined by the Administrator. Shares purchased pursuant to the grant of a Stock Purchase Right shall be referred to herein as "Restricted Stock."

(b) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock purchase agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment with the Company for any reason (including death or disability). The purchase price for Shares repurchased pursuant to the Restricted Stock purchase agreement shall be the original purchase price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Administrator may determine, but at a minimum rate of 20% per year.

(c) Other Provisions. The Restricted Stock purchase agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion. In addition, the provisions of Restricted Stock purchase agreements need not be the same with respect to each purchaser.

(d) Rights as a Stockholder. Once the Stock Purchase Right is exercised, the purchaser shall have the rights equivalent to those of a stockholder, and shall be a stockholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 12 of the Plan.

11. Stock Withholding to Satisfy Withholding Tax Obligations. At the discretion of the Administrator, Optionees may satisfy withholding obligations as provided in this paragraph. When an Optionee incurs tax liability in connection with an Option or Stock Purchase Right, which tax liability is subject to tax withholding under applicable tax laws, and the Optionee is obligated to pay the Company an amount required to be withheld under applicable tax laws, the Optionee may satisfy the withholding tax obligation by one or some combination of the following methods: (a) by cash payment, or (b) out of Optionee's current compensation, (c) if permitted by the Administrator, in its discretion, by surrendering to the Company Shares that (i) in the case of Shares previously acquired from the Company, have been owned by the Optionee for more than six months on the date of surrender, and (ii) have a fair market value on the date of surrender equal to or less than Optionee's marginal tax rate times the ordinary income recognized, or (d) by electing to have the Company withhold from the Shares to be issued upon exercise of the Option, or the Shares to be issued in connection with the Stock Purchase Right, if any, that number of Shares having a fair market value equal to the amount required to be withheld. For this purpose, the fair market value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

Any surrender by a Reporting Person of previously owned Shares to satisfy tax withholding obligations arising upon exercise of this Option must comply with the applicable provisions of Rule 16b-3.

All elections by an Optionee to have Shares withheld to satisfy tax withholding obligations shall be made in writing in a form acceptable to the Administrator and shall be subject to the following restrictions:

(a) the election must be made on or prior to the applicable Tax Date;

(b) once made, the election shall be irrevocable as to the particular Shares of the Option or Stock Purchase Right as to which the election is made; and

(c) all elections shall be subject to the consent or disapproval of the Administrator.

In the event the election to have Shares withheld is made by an Optionee and the Tax Date is deferred under Section 83 of the Code because no election is filed under Section 83(b) of the Code, the Optionee shall receive the full number of Shares with respect to which the Option or Stock Purchase Right is exercised but such Optionee shall be unconditionally obligated to tender back to the Company the proper number of Shares on the Tax Date.

12. Adjustments Upon Changes in Capitalization, Merger or Certain Other Transactions.

(a) Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each outstanding Option or Stock Purchase Right, and the number of shares of Common Stock that have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or that have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination, recapitalization or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Board shall notify the Optionee at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, the Option or Stock Purchase Right will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Sale of Assets. In the event of a proposed sale of all or substantially all of the Company's assets or a merger of the Company with or into another corpora-

tion where the successor corporation issues its securities to the Company's stockholders, each outstanding Option or Stock Purchase Right shall be assumed or an equivalent option or right shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the successor corporation does not agree to assume the Option or Stock Purchase Right or to substitute an equivalent option or right, in which case such Option or Stock Purchase Right shall terminate upon the consummation of the merger or sale of assets.

(d) Certain Distributions. In the event of any distribution to the Company's stockholders of securities of any other entity or other assets (other than dividends payable in cash or stock of the Company) without receipt of consideration by the Company, the Administrator may, in its discretion, appropriately adjust the price per share of Common Stock covered by each outstanding Option or Stock Purchase Right to reflect the effect of such distribution.

13. Non-Transferability of Options and Stock Purchase Rights. Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised or purchased during the lifetime of the Optionee or Stock Purchase Rights Holder only by the Optionee or Stock Purchase Rights Holder.

14. Time of Granting Options and Stock Purchase Rights. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other date as is determined by the Board; provided however that in the case of any Incentive Stock Option, the grant date shall be the later of the date on which the Administrator makes the determination granting such Incentive Stock Option or the date of commencement of the Optionee's employment relationship with the Company. Notice of the determination shall be given to each Employee or Consultant to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

15. Amendment and Termination of the Plan.

(a) Authority to Amend or Terminate. The Board may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made that would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Rule 16b-3 or with Section 422 of the Code (or any other applicable law or regulation, including the requirements of any Stock Exchange), the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) Effect of Amendment or Termination. No amendment or termination of the Plan shall adversely affect Options already granted, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company.

16. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any

Stock Exchange. As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by law.

17. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

18. Agreements. Options and Stock Purchase Rights shall be evidenced by written agreements in such form as the Administrator shall approve from time to time.

19. Stockholder Approval. Continuance of the Plan shall be subject to approval by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such stockholder approval shall be obtained in the degree and manner required under applicable state and federal law and the rules of any Stock Exchange upon which the Common Stock is listed. All Options and Stock Purchase Rights issued under the Plan shall become void in the event such approval is not obtained.

20. Information and Documents to Optionees and Purchasers. The Company shall provide financial statements at least annually to each Optionee and to each individual who acquired Shares Pursuant to the Plan, during the period such Optionee or purchaser has one or more Options or Stock Purchase Rights outstanding, and in the case of an individual who acquired Shares pursuant to the Plan, during the period such individual owns such Shares. The Company shall not be required to provide such information if the issuance of Options or Stock Purchase Rights under the Plan is limited to key employees whose duties in connection with the Company assure their access to equivalent information. In addition, at the time of issuance of any securities under the Plan, the Company shall provide to the Optionee or the Purchaser a copy of the Plan and any agreement(s) pursuant to which securities under the Plan are issued.

INTELLICOAT CORPORATION
1996 STOCK PLAN
NOTICE OF STOCK OPTION GRANT

Optionee
OptioneeAddress1
OptioneeAddress2

You have been granted an option to purchase Common Stock of Intellicoat Corporation (the "Company") as follows:

Board Approval Date:	BoardApprovalDate
Date of Grant (Later of Board Approval Date or Commencement of Employment/Consulting):	GrantDate
Vesting Commencement Date:	VestingCommenceDate
Exercise Price per Share:	\$ExercisePrice
Total Number of Shares Granted:	Optionee
Total Exercise Price:	\$TotalExercisePrice
Type of Option:	NoSharesISO Incentive Stock Option NoSharesNSO Nonstatutory Stock Option
Term/Expiration Date:	ExpirDate
Vesting Schedule:	This Option may be exercised, in whole or in part, in accordance with the following schedule: CliffVestAmount of the Shares subject to the Option shall vest on the CliffMonthNumber month anniversary of the Vesting Commencement Date and $1/\text{TotalVestingMonths}$ of the total number of Shares subject to the Option shall vest on the MonthVestDate of each month thereafter.
Repurchase Option:	The Shares granted pursuant to this option are subject to a right of repurchase by Landec Corporation.

Termination Period:

Option may be exercised for NumberDaystoExercise [must be between 30 days and three months] days after termination of employment or consulting relationship except as set out in Sections 7 and 8 of the Stock Option Agreement (but in no event later than the Expiration Date).

By your signature and the signature of the Company's representative below, you and the Company agree that this option is granted under and governed by the terms and conditions of the 1996 Stock Plan and the Stock Option Agreement, both of which are attached and made a part of this document.

Optionee: _____
Signature

Intellicoat Corporation
By: _____

Print Name

Print Name and Title

INTELLICOAT CORPORATION

1996 STOCK PLAN

STOCK OPTION AGREEMENT

1. Grant of Option. Intellicoat Corporation, a Delaware corporation (the "Company"), hereby grants to Optionee ("Optionee"), an option (the "Option") to purchase a total number of shares of Common Stock (the "Shares") set forth in the Notice of Stock Option Grant, at the exercise price per share set forth in the Notice of Stock Option Grant (the "Exercise Price") subject to the terms, definitions and provisions of the Intellicoat Corporation 1996 Stock Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option.

If designated an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code.

2. Exercise of Option. This Option shall be exercisable during its Term in accordance with the Vesting Schedule set out in the Notice of Stock Option Grant and with the provisions of Section 9 of the Plan as follows:

(a) Right to Exercise.

(i) This Option may not be exercised for a fraction of a share.

(ii) In the event of Optionee's death, disability or other termination of employment, the exercisability of the Option is governed by Sections 6, 7 and 8 below, subject to the limitation contained in Section 2(a)(i).

(iii) In no event may this Option be exercised after the date of expiration of the Term of this Option as set forth in the Notice of Stock Option Grant.

(b) Method of Exercise. This Option shall be exercisable upon execution and delivery of the Exercise Notice and Restricted Stock Purchase Agreement attached hereto as Exhibit A (the "Exercise Agreement") or of any other form of written notice approved for such purpose by the Company which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. This Option shall be deemed to be exercised upon receipt by the Company of such written notice accompanied by the Exercise Price.

No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of applicable law and the

requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to Optionee on the date on which the Option is exercised with respect to such Shares.

3. Method of Payment. Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of Optionee:

(a) cash;

(b) check;

(c) surrender of other shares of Common Stock of the Company which (i) in the case of Shares acquired pursuant to the exercise of a Company option, have been owned by Optionee for more than six (6) months on the date of surrender, and (ii) have a fair market value on the date of surrender equal to the Exercise Price of the Shares as to which the Option is being exercised; or

(d) if there is a public market for the Shares and they are registered under the Securities Act, delivery of a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the exercise price.

4. Restrictions on Exercise. This Option may not be exercised until such time as the Plan has been approved by the stockholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

5. Termination of Relationship. In the event of termination of Optionee's Continuous Status as an Employee or Consultant, Optionee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option during the Termination Period set forth in the Notice of Stock Option Grant. To the extent that Optionee was not entitled to exercise this Option at such Termination Date, or if Optionee does not exercise this Option within the Termination Period, the Option shall terminate.

6. Disability of Optionee.

(a) Notwithstanding the provisions of Section 6 above, in the event of termination of Continuous Status as an Employee or Consultant as a result of Optionee's total and permanent disability (as defined in Section 22(e)(3) of the Code), Optionee may, but only within twelve (12) months from the Termination Date (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant and in Section 9 below), exercise this Option to the extent Optionee was entitled to exercise it as of such Termination Date. To the extent that Optionee was not entitled to exercise the Option as of the

Termination Date, or if Optionee does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

(b) Notwithstanding the provisions of Section 6 above, in the event of termination of Optionee's consulting relationship or Continuous Status as an Employee as a result of any disability not constituting a total and permanent disability (as set forth in Section 22(e)(3) of the Code), Optionee may, but only within six (6) months from the Termination Date (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant and in Section 9 below), exercise this Option to the extent Optionee was entitled to exercise it as of such Termination Date; provided, however, that if this is an Incentive Stock Option and Optionee fails to exercise this Incentive Stock Option within three (3) months from the Termination Date, this Option will cease to qualify as an Incentive Stock Option (as defined in Section 422 of the Code) and Optionee will be treated for federal income tax purposes as having received ordinary income at the time of such exercise in an amount generally measured by the difference between the Exercise Price for the Shares and the fair market value of the Shares on the date of exercise. To the extent that Optionee was not entitled to exercise the Option at the Termination Date, or if Optionee does not exercise such Option to the extent so entitled within the time in this Section 6(b), the Option shall terminate.

7. Death of Optionee. In the event of the death of Optionee (a) during the Term of this Option and while an Employee or Consultant of the Company and having been in Continuous Status as an Employee or Consultant since the date of grant of the Option, or (b) within thirty (30) days after Optionee's Termination Date, the Option may be exercised at any time within six (6) months following the date of death (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant and in Section 9 below), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the Termination Date.

8. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by him or her. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

9. Term of Option. This Option may be exercised only within the Term set out in the Notice of Stock Option Grant, subject to the limitations set forth in Section 7 of the Plan.

10. Repurchase Option.

(a) At any time after the date hereof and prior to the initial public offering of the Company's common stock, Landec Corporation ("Landec"), the Company's parent corporation, shall have an irrevocable, exclusive option (the "Repurchase Option") to repurchase all or any portion of the Shares, whether vested or unvested, held by Optionee at a purchase price determined pursuant to the appraisal process set forth below (adjusted for any stock splits, stock dividends and the like). Consideration for such repurchased shares shall be

cash or the cash equivalent of Landec common stock, pursuant to the appraisal process set forth below.

(b) The Repurchase Option shall be exercised by Landec by written notice to Optionee and to the Company, and at Landec's option, (i) by delivery to Optionee with such notice of a check or stock certificate for Landec common stock in the amount of the purchase price for the Shares being purchased, or (ii) in the event Optionee is indebted to Landec, by cancellation by Landec of an amount of such indebtedness equal to the purchase price for the Shares being repurchased, or (iii) by a combination of (i) and (ii) so that the combined payment and cancellation of indebtedness equals such purchase price. Upon delivery of such notice and payment of the purchase price in any of the ways described above, Landec shall become the legal and beneficial owner of the Shares being repurchased and all rights and interest therein or related thereto, and the Company shall transfer to Landec the number of Shares being repurchased by Landec, without further action by Optionee.

(c) Any securities of the Company to be repurchased or exchanged pursuant to sections 10(a) and (b) above shall be valued at their fair market value, as determined in good faith by the Board of Directors of the Company. Any Landec common stock to be exchanged pursuant to sections 10(a) and (b) above shall be valued at the average of the closing prices for Landec common stock on the Nasdaq National Market System over the thirty-day period ending three (3) days prior to Landec's delivery to the Company of the consideration set forth in section 10(b) above.

11. Tax Consequences. Set forth below is a brief summary as of the date of this Option of certain of the federal and California tax consequences of exercise of this Option and disposition of the Shares under the laws in effect as of the Date of Grant. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) Exercise of Incentive Stock Option. If this Option qualifies as an Incentive Stock Option, there will be no regular federal or California income tax liability upon the exercise of the Option, although the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject Optionee to the alternative minimum tax in the year of exercise.

(b) Exercise of Nonstatutory Stock Option. If this Option does not qualify as an Incentive Stock Option, there may be a regular federal income tax liability and a California income tax liability upon the exercise of the Option. Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(c) Disposition of Shares. In the case of a Nonstatutory Stock Option, if the Shares are held for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal and California income tax purposes. In the case of an Incentive Stock Option, if Shares transferred pursuant to the Option are held for at least one year after exercise and are disposed of at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal and California income tax purposes. If Shares purchased under an Incentive Stock Option are disposed of within such one-year period or within two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the Exercise Price and the lesser of (i) the fair market value of the Shares on the date of exercise, or (ii) the sale price of the Shares.

(d) Notice of Disqualifying Disposition of Incentive Stock Option Shares. If the Option granted to Optionee herein is an Incentive Stock Option, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to such Incentive Stock Option on or before the later of (i) the date two years after the Date of Grant, or (ii) the date one year after the date of exercise, Optionee shall immediately notify the Company in writing of such disposition. Optionee acknowledges and agrees that he or she may be subject to income tax withholding by the Company on the compensation income recognized by Optionee from the early disposition by payment in cash or out of the current earnings paid to Optionee.

12. Withholding Tax Obligations. Optionee understands that, upon exercising a Nonstatutory Stock Option, he or she will recognize income for tax purposes in an amount equal to the excess of the then fair market value of the Shares over the Exercise Price. However, the timing of this income recognition may be deferred for up to six months if Optionee is subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). If Optionee is an employee, the Company will be required to withhold from Optionee's compensation, or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income. Additionally, Optionee may at some point be required to satisfy tax withholding obligations with respect to the disqualifying disposition of an Incentive Stock Option. Optionee shall satisfy his or her tax withholding obligation arising upon the exercise of this Option by one or some combination of the following methods: (a) by cash payment, (b) out of Optionee's current compensation, (c) if permitted by the Administrator, in its discretion, by surrendering to the Company Shares which (i) in the case of Shares previously acquired from the Company, have been owned by Optionee for more than six months on the date of surrender, and (ii) have a fair market value on the date of surrender equal to or greater than Optionee's marginal tax rate times the ordinary income recognized, or (d) by electing to have the Company withhold from the Shares to be issued upon exercise of the Option that number of Shares having a fair market value equal to the amount required to be withheld. For this purpose, the fair market value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

If Optionee is subject to Section 16 of the Exchange Act (an "Insider"), any surrender of previously owned Shares to satisfy tax withholding obligations arising upon exercise of this Option must comply with the applicable provisions of Rule 16b-3 promulgated under the Exchange Act ("Rule 16b-3").

All elections by Optionee to have Shares withheld to satisfy tax withholding obligations shall be made in writing in a form acceptable to the Administrator and shall be subject to the following restrictions:

(a) the election must be made on or prior to the applicable Tax Date;

(b) once made, the election shall be irrevocable as to the particular Shares of the Option as to which the election is made; and

(c) all elections shall be subject to the consent or disapproval of the Administrator.

13. Market Standoff Agreement. In connection with the initial public offering of the Company's securities and upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, Optionee hereby agrees not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any Shares (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters at the time of the public offering.

[Signature Page Follows]

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one document.

Intellicoat Corporation

By: _____

(Print name and title)

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE OPTION HEREOF IS EARNED ONLY BY CONTINUING EMPLOYMENT OR CONSULTANCY AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS AGREEMENT, NOR IN THE COMPANY'S STOCK PLAN WHICH IS INCORPORATED HEREIN BY REFERENCE, SHALL CONFER UPON OPTIONEE ANY RIGHT WITH RESPECT TO CONTINUATION OF EMPLOYMENT OR CONSULTANCY BY THE COMPANY, NOR SHALL IT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S EMPLOYMENT OR CONSULTANCY AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option.

Dated: _____
_____ Optionee

EXHIBIT A

INTELLICOAT CORPORATION

1996 STOCK PLAN

EXERCISE NOTICE AND RESTRICTED STOCK PURCHASE AGREEMENT

This Agreement ("Agreement") is made as of _____, by and between Intellicoat Corporation, a Delaware corporation (the "Company"), and Optionee ("Purchaser"). To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the 1996 Stock Plan.

1. Exercise of Option. Subject to the terms and conditions hereof, Purchaser hereby elects to exercise his or her option to purchase _____ shares of the Common Stock (the "Shares") of the Company under and pursuant to the Company's 1996 Stock Plan (the "Plan") and the Stock Option Agreement dated _____, (the "Option Agreement"). The purchase price for the Shares shall be \$ExercisePrice per Share for a total purchase price of \$_____. The term "Shares" refers to the purchased Shares and all securities received in replacement of the Shares or as stock dividends or splits, all securities received in replacement of the Shares in a recapitalization, merger, reorganization, exchange or the like, and all new, substituted or additional securities or other properties to which Purchaser is entitled by reason of Purchaser's ownership of the Shares.

2. Time and Place of Exercise. The purchase and sale of the Shares under this Agreement shall occur at the principal office of the Company simultaneously with the execution of this Agreement by the parties or on such other date as the Company and Purchaser agree (the "Purchase Date"). On the Purchase Date, the Company will deliver to Purchaser a certificate representing the Shares to be purchased by Purchaser (which shall be issued in Purchaser's name) against payment of the purchase price therefor by Purchaser by (a) check made payable to the Company, (b) cancellation of indebtedness of the Company to Purchaser, (c) delivery of shares of the Common Stock of the Company in accordance with Section 3 of the Option Agreement, or (d) by a combination of the foregoing.

3. Limitations on Transfer. In addition to any other limitation on transfer created by applicable securities laws, Purchaser shall not assign, encumber or dispose of any interest in the Shares except in compliance with the provisions below and applicable securities laws.

(a) Right of First Refusal. Before any Shares held by Purchaser or any transferee of Purchaser (either being sometimes referred to herein as the "Holder") may be sold or otherwise transferred (including transfer by gift or operation of law) and subject to the Repurchase Option of Landec Corporation set forth in Section 4 below, the Company or its assignee(s) shall have a right of first refusal to purchase the Shares on the terms and conditions set forth in this Section 3(a) (the "Right of First Refusal").

(i) Notice of Proposed Transfer. The Holder of the Shares shall deliver to the Company a written notice (the "Notice") stating: (i) the Holder's bona fide

intention to sell or otherwise transfer such Shares; (ii) the name of each proposed purchaser or other transferee ("Proposed Transferee"); (iii) the number of Shares to be transferred to each Proposed Transferee; and (iv) the terms and conditions of each proposed sale or transfer. The Holder shall offer the Shares at the same price (the "Offered Price") and upon the same terms (or terms as similar as reasonably possible) to the Company or its assignee(s).

(ii) Exercise of Right of First Refusal. At any time within thirty (30) days after receipt of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all, but not less than all, of the Shares proposed to be transferred to any one or more of the Proposed Transferees, at the purchase price determined in accordance with subsection (iii) below.

(iii) Purchase Price. The purchase price ("Purchase Price") for the Shares purchased by the Company or its assignee(s) under this Section 3(a) shall be the Offered Price. If the Offered Price includes consideration other than cash, the cash equivalent value of the non-cash consideration shall be determined by the Board of Directors of the Company in good faith.

(iv) Payment. Payment of the Purchase Price shall be made, at the option of the Company or its assignee(s), in cash (by check), by cancellation of all or a portion of any outstanding indebtedness of the Holder to the Company (or, in the case of repurchase by an assignee, to the assignee), or by any combination thereof within 30 days after receipt of the Notice or in the manner and at the times set forth in the Notice.

(v) Holder's Right to Transfer. If all of the Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section 3(a), then the Holder may sell or otherwise transfer such Shares to that Proposed Transferee at the Offered Price or at a higher price, provided that such sale or other transfer is consummated within 60 days after the date of the Notice and provided further that any such sale or other transfer is effected in accordance with any applicable securities laws and the Proposed Transferee agrees in writing that the provisions of this Section 3 shall continue to apply to the Shares in the hands of such Proposed Transferee. If the Shares described in the Notice are not transferred to the Proposed Transferee within such period, or if the Holder proposes to change the price or other terms to make them more favorable to the Proposed Transferee, a new Notice shall be given to the Company, and the Company and/or its assignees shall again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

(vi) Exception for Certain Family Transfers. Anything to the contrary contained in this Section 3(a) notwithstanding, the transfer of any or all of the Shares during the Optionee's lifetime or on the Optionee's death by will or intestacy to the Optionee's immediate family or a trust for the benefit of the Optionee's immediate family shall be exempt from the provisions of this Section. "Immediate Family" as used herein shall mean spouse, lineal descendant or antecedent, father, mother, brother or sister. In such case, the transferee or other recipient shall receive and hold the Shares so transferred subject to the provisions of this Section,

and there shall be no further transfer of such Shares except in accordance with the terms of this Section 3.

(b) Involuntary Transfer.

(i) Company's Right to Purchase upon Involuntary Transfer. In the event, at any time after the date of this Agreement, of any transfer by operation of law or other involuntary transfer (including death or divorce) or all or a portion of the Shares by the record holder thereof, the Company shall have an option to purchase all of the Shares transferred at the greater of the purchase price paid by Purchaser pursuant to this Agreement or the fair market value of the Shares on the date of transfer. Upon such a transfer, the person acquiring the Shares shall promptly notify the Secretary of the Company of such transfer. The right to purchase such Shares shall be provided to the Company for a period of thirty (30) days following receipt by the Company of written notice by the person acquiring the Shares.

(ii) Price for Involuntary Transfer. With respect to any stock to be transferred pursuant to Section 3(b)(i), the price per Share shall be a price set by the Board of Directors of the Company that will reflect the current value of the stock in terms of present earnings and future prospects of the Company. The Company shall notify Purchaser or his or her executor of the price so determined within thirty (30) days after receipt by it of written notice of the transfer or proposed transfer of Shares. However, if the Purchaser does not agree with the valuation as determined by the Board of Directors of the Company, the Purchaser shall be entitled to have the valuation determined by an independent appraiser to be mutually agreed upon by the Company and the Purchaser and whose fees shall be borne equally by the Company and the Purchaser.

(c) Assignment. The right of the Company to purchase any part of the Shares may be assigned in whole or in part to any stockholder or stockholders of the Company or other persons or organizations; provided, however, that an assignee, other than a corporation that is the parent or a 100% owned subsidiary of the Company, must pay the Company, upon assignment of such right, cash equal to the difference between the original purchase price and fair market value, if the original purchase price is less than the fair market value of the Shares subject to the assignment.

(d) Restrictions Binding on Transferees. All transferees of Shares or any interest therein will receive and hold such Shares or interest subject to the provisions of this Agreement. Any sale or transfer of the Company's Shares shall be void unless the provisions of this Agreement are satisfied.

(e) Termination of Rights. The right of first refusal granted the Company by Section 3(a) above and the option to repurchase the Shares in the event of an involuntary transfer granted the Company by Section 3(b) above shall terminate upon the first sale of Common Stock of the Company to the general public pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act. Upon termination of the right of first refusal described in Section 3(a) above, a new certificate or certificates

representing the Shares not repurchased shall be issued, on request, without the legend referred to in Section 6(a)(ii) herein and delivered to Purchaser.

4. Repurchase Option of Landec Corporation.

(a) At any time after the date hereof and prior to the initial public offering of the Company's common stock, Landec Corporation ("Landec"), the Company's parent corporation, shall have an irrevocable, exclusive option (the "Repurchase Option") to repurchase all or any portion of the Shares, whether vested or unvested, held by Optionee at a purchase price determined pursuant to the appraisal process set forth below (adjusted for any stock splits, stock dividends and the like). Consideration for such repurchased shares shall be cash or the cash equivalent of Landec common stock, pursuant to the appraisal process set forth below.

(b) The Repurchase Option shall be exercised by Landec by written notice to Optionee and to the Company, and at Landec's option, (i) by delivery to Optionee with such notice of a check or stock certificate for Landec common stock in the amount of the purchase price for the Shares being purchased, or (ii) in the event Optionee is indebted to Landec, by cancellation by Landec of an amount of such indebtedness equal to the purchase price for the Shares being repurchased, or (iii) by a combination of (i) and (ii) so that the combined payment and cancellation of indebtedness equals such purchase price. Upon delivery of such notice and payment of the purchase price in any of the ways described above, Landec shall become the legal and beneficial owner of the Shares being repurchased and all rights and interest therein or related thereto, and the Company shall transfer to Landec the number of Shares being repurchased by Landec, without further action by Optionee.

(c) Any securities of the Company to be repurchased or exchanged pursuant to sections 4(a) and (b) above shall be valued at their fair market value, as determined in good faith by the Board of Directors of the Company. Any Landec common stock to be exchanged pursuant to sections 4(a) and (b) above shall be valued at the average of the closing prices for Landec common stock on the Nasdaq National Market System over the thirty-day period ending three (3) days prior to Landec's delivery to the Company of the consideration set forth in section 4(b) above.

5. Investment and Taxation Representations. In connection with the purchase of the Shares, Purchaser represents to the Company the following:

(a) Purchaser is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the securities. Purchaser is purchasing these securities for investment for his or her own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act.

(b) Purchaser understands that the securities have not been registered under the Securities Act by reason of a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Purchaser's investment intent as expressed herein.

(c) Purchaser further acknowledges and understands that the securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Purchaser further acknowledges and understands that the Company is under no obligation to register the securities. Purchaser understands that the certificate(s) evidencing the securities will be imprinted with a legend which prohibits the transfer of the securities unless they are registered or such registration is not required in the opinion of counsel for the Company.

(d) Purchaser is familiar with the provisions of Rules 144 and 701, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of issuance of the securities, such issuance will be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the securities exempt under Rule 701 may be resold by the Purchaser ninety (90) days thereafter, subject to the satisfaction of certain of the conditions specified by Rule 144, including, among other things: (1) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and, in the case of an affiliate, (2) the availability of certain public information about the Company, and the amount of securities being sold during any three month period not exceeding the limitations specified in Rule 144(e), if applicable. Notwithstanding this paragraph (d), Purchaser acknowledges and agrees to the restrictions set forth in paragraph (f) hereof.

In the event that the Company does not qualify under Rule 701 at the time of purchase, then the securities may be resold by the Purchaser in certain limited circumstances subject to the provisions of Rule 144, which requires, among other things: (1) the availability of certain public information about the Company; (2) the resale occurring not less than two years after the party has purchased, and made full payment of (within the meaning of Rule 144), the securities to be sold; and, in the case of an affiliate, or of a non-affiliate who has held the securities less than three years, (3) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934) and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein, if applicable. PURCHASER UNDERSTANDS THAT PAYMENT FOR THE SHARES WITH A PROMISSORY NOTE IS NOT DEEMED TO BE FULL PAYMENT UNDER RULE 144 UNLESS THE NOTE IS SECURED BY ASSETS OTHER THAN THE SHARES.

(e) Purchaser further understands that at the time he or she wishes to sell the securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144 or 701, and that, in such event, Purchaser would be precluded from selling the securities under Rule 144 or 701 even if the two-year minimum holding period had been satisfied.

(f) Purchaser further understands that in the event all of the applicable requirements of Rule 144 or 701 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and

Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

(g) Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Restrictive Legends and Stop-Transfer Orders.

(a) Legends. The certificate or certificates representing the Shares shall bear the following legends (as well as any legends required by applicable state and federal corporate and securities laws):

- (i) THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR, IN THE OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS IN COMPLIANCE THEREWITH.
- (ii) THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER HELD BY THE ISSUER OR ITS ASSIGNEE(S) AS SET FORTH IN THE EXERCISE NOTICE BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH TRANSFER RESTRICTIONS AND RIGHT OF FIRST REFUSAL ARE BINDING ON TRANSFEREES OF THESE SHARES.
- (iii) IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES.

(b) Stop-Transfer Notices. Purchaser agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

7. No Employment Rights. Nothing in this Agreement shall affect in any manner whatsoever the right or power of the Company, or a parent or subsidiary of the Company, to terminate Purchaser's employment, for any reason, with or without cause.

8. Market Stand-off Agreement. In connection with the initial public offering of the Company's securities and upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, Purchaser agrees not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any Shares (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters at the time of the public offering.

9. Miscellaneous.

(a) Governing Law. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of California, without giving effect to principles of conflicts of law.

(b) Entire Agreement; Enforcement of Rights. This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter herein and merges all prior discussions between them. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

(c) Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of the Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of the Agreement shall be enforceable in accordance with its terms.

(d) Construction. This Agreement is the result of negotiations between and has been reviewed by each of the parties hereto and their respective counsel, if any; accordingly, this Agreement shall be deemed to be the product of all of the parties hereto, and no ambiguity shall be construed in favor of or against any one of the parties hereto.

(e) Notices. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by telegram or fax or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the party to be notified at such party's address as set forth below or as subsequently modified by written notice.

(f) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

(g) Successors and Assigns. The rights and benefits of this Agreement shall inure to the benefit of, and be enforceable by the Company's successors and assigns. The rights and obligations of Purchaser under this Agreement may only be assigned with the prior written consent of the Company.

(h) California Corporate Securities Law. THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF THE SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO THE QUALIFICATION IS UNLAWFUL, UNLESS THE SALE OF SECURITIES IS EXEMPT FROM QUALIFICATION BY SECTION 25100, 25102 OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON THE QUALIFICATION BEING OBTAINED, UNLESS THE SALE IS SO EXEMPT.

[Signature Page Follows]

The parties have executed this Agreement as of the date first set forth above.

COMPANY:

Intellicoat Corporation

By: _____

Name: _____
(print)

Title: _____

CompanyAddressLine1
CompanyAddressLine2

PURCHASER:

Optionee

(Signature)

(Print Name)

Address:

OptioneeAddress1
OptioneeAddress2

I, _____, spouse of Optionee, have read and hereby approve the foregoing Agreement. In consideration of the Company's granting my spouse the right to purchase the Shares as set forth in the Agreement, I hereby agree to be irrevocably bound by the Agreement and further agree that any community property or other such interest shall hereby be similarly bound by the Agreement. I hereby appoint my spouse as my attorney-in-fact with respect to any amendment or exercise of any rights under the Agreement.

Spouse of Optionee

ATTACHMENT A

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED and pursuant to that certain Pledge and Security Agreement between the undersigned ("Purchaser") and Intellicoat Corporation, dated _____, (the "Agreement"), Purchaser hereby sells, assigns and transfers unto _____ (_____) shares of the Common Stock of Intellicoat Corporation, standing in Purchaser's name on the books of said corporation represented by Certificate No. ___ herewith and hereby irrevocably appoints _____ to transfer said stock on the books of the within-named corporation with full power of substitution in the premises. THIS ASSIGNMENT MAY ONLY BE USED AS AUTHORIZED BY THE AGREEMENT.

Dated: _____

Signature:

Optionee

Spouse of Optionee (if applicable)

Instruction: Please do not fill in any blanks other than the signature line. The purpose of this assignment is to perfect the security interest of the Company pursuant to the Agreement.

RECEIPT AND CONSENT

The undersigned hereby acknowledges receipt of Certificate No. _____
for _____ shares of Common Stock of Intellicoat Corporation (the
"Company").

The undersigned further acknowledges receipt of a copy of Section
260.141.11 of the Rules of the Commissioner of Corporations of the State of
California, which copy is attached to the aforementioned certificate.

Dated: _____

Optionee

RECEIPT

Intellicoat Corporation (the "Company") hereby acknowledges receipt of
(check as applicable):

_____ A check in the amount of \$_____

_____ The cancellation of indebtedness in the amount of \$_____

_____ Certificate No. _____ representing _____ shares of the Company's
Common Stock with a fair market value of \$_____

given by Optionee as consideration for Certificate No. _____ for _____
shares of Common Stock of the Company.

Dated: _____

Intellicoat Corporation

By: _____

Name: _____
(print)

Title: _____

LANDEC CORPORATION

1996 NON-EXECUTIVE STOCK OPTION PLAN

1. Purposes of the Plan. The purposes of this Stock Option Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to the Employees and Consultants of the Company and to promote the success of the Company's business. Options granted hereunder shall be Nonstatutory Stock Options.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" shall mean the Board or any of its Committees appointed pursuant to Section 4 of the Plan.

(b) "Affiliate" shall mean an entity other than a Subsidiary (as defined below) in which the Company owns an equity interest.

(c) "Applicable Laws" shall have the meaning set forth in Section 4(a) below.

(d) "Board" shall mean the Board of Directors of the Company.

(e) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(f) "Committee" shall mean the Committee appointed by the Board of Directors in accordance with Section 4(a) of the Plan, if one is appointed.

(g) "Common Stock" shall mean the Common Stock of the Company.

(h) "Company" shall mean Landec Corporation, a California corporation.

(i) "Consultant" means any person, including an advisor, who is engaged by the Company or any Parent or Subsidiary to render services and is compensated for such services, and any director of the Company, provided that the term Consultant shall not include directors who are not compensated for their services or are paid only a director's fee by the Company.

(j) "Continuous Status as an Employee or Consultant" shall mean the absence of any interruption or termination of service as an Employee or Consultant. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of sick leave, military leave, or any other leave of absence approved by the Administrator; provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute. For purposes of this Plan, a change in status from an Employee to a Consultant or from a Consultant to an Employee will not constitute a termination of employment.

(k) "Director" shall mean a member of the Board.

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(l) "Employee" shall mean any person (excluding any Officer or Director) employed by the Company or any Parent, Subsidiary or Affiliate of the Company. The payment by the Company of a director's fee to a Director shall not be sufficient to constitute "employment" of such Director by the Company.

(m) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(n) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the National Market of the National Association of Securities Dealers, Inc. Automated Quotation ("Nasdaq") System, its Fair Market Value shall be the closing sales price for such stock as quoted on such system on the date of determination (if for a given day no sales were reported, the closing bid on that day shall be used), as such price is reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is quoted on the Nasdaq System (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the bid and asked prices for the Common Stock or;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(o) "Nonstatutory Stock Option" shall mean an Option not intended to qualify as an incentive stock option under Section 422 of the Code, as designated in the applicable written option agreement.

(p) "Officer" shall mean a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and

regulations promulgated thereunder.

(q) "Option" shall mean a stock option granted pursuant to the Plan.

(r) "Optioned Stock" shall mean the Common Stock subject to an Option.

(s) "Optionee" shall mean an Employee or Consultant who receives an Option.

(t) "Parent" shall mean a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(u) "Plan" shall mean this 1996 Non-Executive Stock Option Plan.

(v) "Rule 16b-3" shall mean Rule 16b-3 promulgated under the Exchange Act as the same may be amended from time to time, or any successor provision.

(w) "Share" shall mean a share of the Common Stock, as adjusted in accordance with Section 14 of the Plan.

(x) "Subsidiary" shall mean a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of shares that may be optioned and sold under the Plan is 750,000 shares of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares that were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan. Notwithstanding any other provision of the Plan, shares issued under the Plan and later repurchased by the Company shall not become available for future grant under the Plan.

4. Administration of the Plan.

(a) Composition of Administrator. The Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which Committee shall be constituted in such a manner as to satisfy the legal requirements relating to the administration of stock option laws, if any, of applicable securities law and the Code (collectively the "Applicable Laws"). If a Committee has been appointed pursuant to this Section 4(a), such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of any Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies (however caused) and remove all members of a Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan and in the case of a Committee, the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(n) of the Plan;

(ii) to select the Employees and Consultants to whom Options may from time to time be granted hereunder;

(iii) to determine whether and to what extent Options are granted hereunder;

(iv) to determine the number of shares of Common Stock to be covered by each such award granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder (including, but not limited to, the share price and any restriction or limitation, or any vesting acceleration or waiver of forfeiture restrictions regarding any Option and/or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator shall determine, in its sole discretion);

(vii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option shall have declined since the date the Option was granted.

(c) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees and any other holders of any Options.

5. Eligibility.

(a) Recipients of Grants. Options may be granted to Employees and Consultants. An Employee or Consultant who has been granted an Option may, if he or she is otherwise eligible, be granted an additional Option or Options.

(b) Type of Option. Each Option shall be designated in the written option agreement as a Nonstatutory Stock Option.

(c) No Employment Rights. The Plan shall not confer upon any Optionee any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.

6. Term of Plan. The Plan shall become effective upon its adoption by the Board. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 15 of the Plan.

7. Term of Option. The term of each Option shall be the term stated in the Option Agreement.

8. Option Exercise Price and Consideration.

(a) Exercise Price. The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Administrator.

(b) Permissible Consideration. The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator and may consist entirely of (1) cash, (2) check, (3) authorization for the Company to retain from the total number of Shares as to which the Option is exercised that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to which the Option is exercised, (4) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall

require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price and any applicable income or employment taxes, (5) a combination of any of the foregoing methods of payment, or (6) such other consideration and method of payment for the issuance of Shares to the extent permitted under Applicable Laws. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Administrator, consist of any consideration and method of payment allowable under Section 9(b) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 14 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Status as an Employee or Consultant. In the event of termination of an Optionee's Continuous Status as an Employee or Consultant, such Optionee may, but only within thirty (30) days or such other period of time, not exceeding six (6) months as is determined by the Administrator, after the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent that he or she was entitled to exercise it at the date of such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of such termination, or if the Optionee does not exercise such Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate.

(c) Disability of Optionee. Notwithstanding Section 10(b) above, in the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of his or her total and permanent disability (as defined in Section 22(e)(3) of the Code), he or she may, but

only within six (6) months, or such other period of time not exceeding twelve (12) months as is determined by the Administrator, from the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent he or she was entitled to exercise it at the date of such termination. To the extent that he or she was not entitled to exercise the Option at the date of termination, or if he does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

(d) Death of Optionee. In the event of the death of an Optionee:

(i) during the term of the Option who is at the time of his death an Employee or Consultant of the Company and who shall have been in Continuous Status as an Employee or Consultant since the date of grant of the Option, the Option may be exercised, at any time within six (6) months (or such other period of time, not exceeding twelve (12) months, as is determined by the Administrator) following the date of death (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance but only to the extent of the right to exercise that would have accrued had the Optionee continued living and remained in Continuous Status as an Employee or Consultant three (3) months (or such other period of time as is determined by the Administrator as provided above) after the date of death; or

(ii) within thirty (30) days (or such other period of time not exceeding three (3) months as is determined by the Administrator) after the termination of Continuous Status as an Employee or Consultant, the Option may be exercised, at any time within six (6) months following the date of death (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

10. Withholding Taxes. As a condition to the exercise of Options granted hereunder, the Optionee shall make such arrangements as the Administrator may require for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with the exercise, receipt or vesting of such Option. The Company shall not be required to issue any Shares under the Plan until such obligations are satisfied.

11. Stock Withholding to Satisfy Withholding Tax Obligations. At the discretion of the Administrator, Optionees may satisfy withholding obligations as provided in this paragraph. When an Optionee incurs tax liability in connection with an Option which tax liability is subject to tax withholding under applicable tax laws, and the Optionee is obligated to pay the Company an amount required to be withheld under applicable tax laws, the Optionee may satisfy the withholding tax obligation by one or some combination of the following methods: (a) by cash payment, or (b) out of Optionee's current compensation, or (c) if permitted by the Administrator, in its discretion, by surrendering to the Company Shares that (i) in the case of Shares previously acquired from the Company, have been owned by the Optionee for more than six months on the date of surrender, and (ii) have a fair market value on the date of surrender equal to or less than Optionee's marginal tax rate times the ordinary income recognized, or (d) by electing to have the Company withhold from the

Shares to be issued upon exercise of the Option that number of Shares having a fair market value equal to the amount required to be withheld. For this purpose, the fair market value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

All elections by an Optionee to have Shares withheld to satisfy tax withholding obligations shall be made in writing in a form acceptable to the Administrator and shall be subject to the following restrictions:

(a) the election must be made on or prior to the applicable Tax Date;

(b) once made, the election shall be irrevocable as to the particular Shares of the Option as to which the election is made; and

(c) all elections shall be subject to the consent or disapproval of the Administrator.

In the event the election to have Shares withheld is made by an Optionee and the Tax Date is deferred under Section 83 of the Code because no election is filed under Section 83(b) of the Code, the Optionee shall receive the full number of Shares with respect to which the Option is exercised but such Optionee shall be unconditionally obligated to tender back to the Company the proper number of Shares on the Tax Date.

12. Non-Transferability of Options. The Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution; provided that the Administrator may in its discretion grant transferable Options pursuant to option agreements specifying (i) the manner in which such Nonstatutory Stock Options are transferable and (ii) that any such transfer shall be subject to the Applicable Laws. The designation of a beneficiary by an Optionee will not constitute a transfer. An Option may be exercised, during the lifetime of the Optionee, only by the Optionee or a transferee permitted by this Section 12.

13. Adjustments Upon Changes in Capitalization; Corporate Transactions.

(a) Adjustment. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each outstanding Option, the number of shares of Common Stock that have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, and the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as

expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

(b) Corporate Transactions. In the event of the proposed dissolution or liquidation of the Company, the Option will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Administrator. The Administrator may, in the exercise of its sole discretion in such instances, declare that any Option shall terminate as of a date fixed by the Administrator and give each Optionee the right to exercise his or her Option as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, the Option shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Administrator determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, that the Optionee shall have the right to exercise the Option as to some or all of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable. If the Administrator makes an Option exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee that the Option shall be exercisable for a period of fifteen (15) days from the date of such notice, and the Option will terminate upon the expiration of such period.

14. Time of Granting Options. The date of grant of an Option shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or such other date as is determined by the Administrator. Notice of the determination shall be given to each Employee or Consultant to whom an Option is so granted within a reasonable time after the date of such grant.

15. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may amend or terminate the Plan from time to time in such respects as the Board may deem advisable.

(b) Effect of Amendment or Termination. Any such amendment or termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company.

16. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

17. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

18. Option Agreement. Options shall be evidenced by written option agreements in such form as the Board shall approve.

LANDEC CORPORATION

1996 NON-EXECUTIVE STOCK OPTION PLAN

NOTICE OF NONSTATUTORY STOCK OPTION GRANT

Optionee's Name and Address:

Optionee
OptioneeAddress1
OptioneeAddress2

You have been granted an option to purchase Common Stock of Landec Corporation, (the "Company") as follows:

Board Approval Date:	_____
Date of Grant (Later of Board Approval Date or Commencement of Employment/Consulting):	GrantDate
Exercise Price Per Share:	ExercisePrice
Total Number of Shares Granted:	SharesGranted
Total Price of Shares Granted:	TotalExercisePrice
Type of Option:	NoSharesNSO Shares Nonstatutory Stock Option
Term/Expiration Date:	Term/ExpirDate
Vesting Commencement Date:	VestingStartDate
Vesting Schedule:	VestingSchedule
Termination Period:	Option may be exercised for a period of 30 days after termination of employment or consulting relationship except as set out in Sections 7 and 8 of the Nonstatutory Stock Option Agreement (but in no event later than the Expiration Date).

By your signature and the signature of the Company's representative below, you and the Company agree that this option is granted under and governed by the terms and conditions of the Landec Corporation 1996 Non-Executive Stock Option Plan and the Nonstatutory Stock Option Agreement, all of which are attached and made a part of this document.

OPTIONEE: _____ LANDEC CORPORATION

Signature

By: _____

Print Name

Title: _____

LANDEC CORPORATION

NONSTATUTORY STOCK OPTION AGREEMENT

1. Grant of Option. Landec Corporation, a California corporation (the "Company"), hereby grants to the Optionee named in the Notice of Nonstatutory Stock Option Grant attached to this Agreement ("Optionee"), a nonstatutory stock option (the "Option") to purchase the total number of shares of Common Stock (the "Shares") set forth in the Notice of Nonstatutory Stock Option Grant, at the exercise price per share set forth in the Notice of Nonstatutory Stock Option Grant (the "Exercise Price") subject to the terms, definitions and provisions of the 1996 Non-Executive Stock Option Plan (the "Plan") adopted by the Company, which is incorporated in this Agreement by reference. In the event of a conflict between the terms of the Plan and the terms of this Agreement, the terms of the Plan shall govern. Unless otherwise defined in this Agreement, the terms used in this Agreement shall have the meanings defined in the Plan.

This Option is a Nonstatutory Stock Option and is not intended to qualify as an Incentive Stock Option as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Exercise of Option. This Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Nonstatutory Stock Option Grant and with the provisions of Sections 9 and 10 of the Plan as follows:

(a) Right to Exercise.

(i) This Option may not be exercised for a fraction of a share.

(ii) In the event of Optionee's death, disability or other termination of employment, the exercisability of the Option is governed by Sections 6, 7 and 8 below, subject to the limitations contained in paragraphs (iii) and (iv) below.

(iii) In no event may this Option be exercised after the date of expiration of the term of this Option as set forth in the Notice of Nonstatutory Stock Option Grant.

(b) Method of Exercise.

(i) This Option shall be exercisable by delivering to the Company a written notice of exercise (in the form attached as Exhibit A) which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such Shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. This Option shall be deemed to be exercised upon receipt by the Company of such written notice accompanied by the Exercise Price.

(ii) As a condition to the exercise of this Option, Optionee agrees to make adequate provision for federal, state or other tax withholding obligations, if any, which arise upon the exercise of the Option or disposition of Shares, whether by withholding, direct payment to the Company, or otherwise.

(iii) No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to Optionee on the date on which the Option is exercised with respect to such Shares.

3. Optionee's Representations. In the event the Shares purchasable pursuant to the exercise of this Option have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), at the time this Option is exercised, Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company an investment representation statement in customary form, a copy of which is available for Optionee's review from the Company upon request.

4. Method of Payment. Payment of the Exercise Price shall be by any of the following, or a combination of the following, at the election of Optionee: (a) cash; (b) check; (c) surrender of other Shares of Common Stock of the Company that (i) either have been owned by Optionee for more than six (6) months on the date of surrender or were not acquired, directly or indirectly, from the Company, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised; (d) authorization from the Company to retain from the total number of Shares as to which the Option is exercised that number of Shares having a Fair Market value on the date of exercise equal to the exercise price for the total number of Shares as to which the Option is exercised; or (e) if there is a public market for the Shares and they are registered under the Securities Act, delivery of a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the exercise price.

5. Restrictions on Exercise. This Option may not be exercised until such time as the Plan has been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations ("Regulation G") as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

6. Termination of Relationship. In the event of termination of Optionee's Continuous Status as an Employee or Consultant, Optionee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option during the Termination Period set out in the Notice of Nonstatutory Stock Option Grant. To the extent that Optionee was not entitled to exercise this Option at the date of such termination, or if Optionee

does not exercise this Option within the time specified in the Notice of Nonstatutory Stock Option Grant, the Option shall terminate.

7. Disability of Optionee. Notwithstanding the provisions of Section 6 above, in the event of termination of Optionee's Continuous Status as an Employee or Consultant as a result of total and permanent disability (as defined in Section 22(e)(3) of the Code), Optionee may, but only within six (6) months from the date of termination of employment (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), exercise the Option to the extent otherwise so entitled at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option (to the extent otherwise so entitled) within the time specified in this Agreement, the Option shall terminate.

8. Death of Optionee. In the event of the death of Optionee:

(a) during the term of this Option and while an Employee of the Company and having been in Continuous Status as an Employee or Consultant since the date of grant of the Option, the Option may be exercised, at any time within six (6) months following the date of death (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had Optionee continued living and remained in Continuous Status as an Employee or Consultant three (3) months after the date of death; or

(b) within thirty (30) days after the termination of Optionee's Continuous Status as an Employee or Consultant, the Option may be exercised, at any time within six (6) months following the date of death (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

9. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution. The designation of a beneficiary does not constitute a transfer. An Option may be exercised during the lifetime of Optionee only by Optionee or a transferee permitted by this section. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

10. Term of Option. This Option may be exercised only within the term set out in the Notice of Nonstatutory Stock Option Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option.

11. No Additional Employment Rights. Optionee understands and agrees that the vesting of Shares pursuant to the Vesting Schedule is earned only by continuing as an Employee or Consultant at the will of the Company (not through the act of being hired, being granted this Option or acquiring Shares under this Agreement). Optionee further acknowledges and agrees that nothing in this Agreement, nor in the Plan which is incorporated in this Agreement by

reference, shall confer upon Optionee any right with respect to continuation as an Employee or Consultant with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.

12. Tax Consequences. Optionee acknowledges that he or she has read the brief summary set forth below of certain federal tax consequences of exercise of this Option and disposition of the Shares under the law in effect as of the date of grant. OPTIONEE UNDERSTANDS THAT THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT HIS OR HER OWN TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) Exercise of Nonstatutory Stock Option. Optionee may incur regular federal income tax liability upon the exercise of the Option as Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price. In addition, if Optionee is an employee of the Company, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(b) Disposition of Shares. Gain or loss realized on the disposition of Shares will be calculated as the difference between the fair market value on the exercise date and the proceeds from the disposition. Such gain or loss will be treated as long-term capital gain or loss if the disposition occurs more than one year after the exercise date.

13. Signature. This Stock Option Agreement shall be deemed executed by the Company and Optionee upon execution by such parties of the Notice of Nonstatutory Stock Option Grant attached to this Stock Option Agreement.

[Remainder of page left intentionally blank]

EXHIBIT A

NOTICE OF EXERCISE

To: Landec Corporation
Attn: Stock Option Administrator
Subject: Notice of Intention to Exercise Nonstatutory Stock Option

This is official notice that the undersigned ("Optionee") intends to exercise Optionee's option to purchase _____ shares of Landec Corporation Common Stock, under and pursuant to the Company's 1996 Non-Executive Stock Option Plan and the Nonstatutory Stock Option Agreement dated _____, as follows:

Grant Number: _____
Date of Purchase: _____
Number of Shares: _____
Purchase Price: _____
Method of Payment
of Purchase Price
(and applicable taxes): _____

Social Security No.: _____

The shares should be issued as follows:

Name: _____
Address: _____

Signed: _____
Date: _____

LANDEC CORPORATION

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

	Year Ended October 31,		
	1996	1995	1994
Net Loss	\$ (4,200)	\$ (2,759)	\$ (4,355)
Shares used in calculating net loss per share:			
Weighted average shares of common stock outstanding	7,699	542	522
SEC Staff Accounting Bulletin Topic 4D	-	640	640
Total shares used in calculating net loss per share	7,699	1,182	1,162
Net loss per share	\$ (0.55)	\$ (2.33)	\$ (3.75)
Shares used in calculating supplemental net loss per share:			
Weighted average shares of common stock outstanding	7,699	542	
Weighted average shares of the assumed conversion of preferred stock and promissory notes from the date of issuance	1,998	6,633	
Total shares used in calculating supplemental net loss per share	9,697	7,175	
Supplemental net loss per share	\$ (0.43)	\$ (0.38)	

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-06163) pertaining to the 1988 Stock Option Plan, 1995 Employee Stock Purchase Plan and 1995 Directors' Stock Option Plan, of our report dated December 6, 1996 with respect to the consolidated financial statements and financial schedule of Landec Corporation included in the Annual Report (Form 10-K) for the year ended October 31, 1996.

Ernst & Young, LLP

Palo Alto, California
January 23, 1997

1,000

12-MOS

OCT-31-1996

Nov-01-1995

OCT-31-1996

14,185

22,325

55

32

549

37,270

3,248

(2,285)

38,358

1,388

0

68,242

0

0

(31,602)

38,358

755

2,451

1,004

4,812

0

0

99

(4,200)

0

(4,200)

0

0

0

(4,200)

(0.55)

(0.55)