

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

FORM 10-Q

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

For the Fiscal Quarter Ended April 30, 1997, or

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

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 0-27446

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

California  
(State or other jurisdiction of  
incorporation or organization)

94-3025618  
(IRS Employer  
Identification Number)

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

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

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

Yes    X    No  
    ---    ---

As of May 31, 1997, 11,221,910 shares of the Registrant's common stock were outstanding.

-1-

LANDEC CORPORATION

FORM 10-Q For the Quarter Ended April 30, 1997

INDEX

	Page
Facing sheet	1
Index	2
Part I. Financial Information	
Item 1. Financial Statements:	
a) Consolidated condensed balance sheets as of April 30, 1997 and October 31, 1996	3
b) Consolidated statements of operations for the three and six months ended April 30, 1997 and 1996	4
c) Consolidated statements of cash flows for the six months ended April 30, 1997 and 1996	5
d) Notes to consolidated financial statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Part II. Other Information	
Signature	17



## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

LANDEC CORPORATION  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(Unaudited)  
(In thousands)

	April 30, 1997	October 31, 1996
	-----	-----
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,043	\$ 14,185
Short-term investments	19,114	22,325
Restricted investment	8,838	--
Accounts receivable, net	2,046	23
Inventories	2,295	549
Prepaid expenses and other current assets	356	188
	-----	-----
Total Current Assets	34,692	37,270
Property and equipment, net	3,888	963
Intangible assets, net	7,057	--
Other assets	126	125
	-----	-----
	\$ 45,763	\$ 38,358
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 1,398	\$ 484
Accrued compensation	459	250
Other accrued liabilities	482	259
Payable related to acquisition of Dock Resins Corporation	9,528	--
Current portion of long term debt	321	229
Deferred revenue	292	166
	-----	-----
Total Current Liabilities	12,480	1,388
Non-current portion of long term debt	159	330
Deferred compensation	127	--
Stockholder's Equity:		
Common stock	70,433	68,242
Notes receivable from shareholders	(13)	(13)
Deferred compensation	(255)	(311)
	-----	-----
Accumulated deficit	(37,168)	(31,278)
	-----	-----
Total Stockholders' Equity	32,997	36,640
	-----	-----
	\$ 45,763	\$ 38,358
	=====	=====

See accompanying notes.

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

	Three Months Ended April 30, 1997 ----	1996 ----	Six Months Ended April 30, 1997 ----	1996 ----
Revenues:				
Product sales	\$ 767	\$ 281	\$ 940	\$ 412
License fees	--	600	--	600
Research and development revenues	242	394	459	682
	-----	-----	-----	-----
Total revenues	1,009	1,275	1,399	1,694
Operating costs and expenses:				
Cost of product sales	634	295	943	539
Research and development	1,030	945	1,946	1,898
Selling, general and administrative	1,316	733	2,250	1,224
Purchase of in-process research and development	--	--	--	--
	3,022	--	3,022	--
	-----	-----	-----	-----
Total operating costs and expenses	6,002	1,973	8,161	3,661
Loss from operations	(4,993)	(698)	(6,762)	(1,967)
Interest income	438	439	932	506
Interest expense	(17)	(8)	(37)	(54)
	-----	-----	-----	-----
Net loss	\$ (4,572)	\$ (267)	\$ (5,867)	\$ (1,515)
	=====	=====	=====	=====
Net loss per share	\$ (0.42)	\$ (0.03)	\$ (0.54)	\$ (0.32)
	=====	=====	=====	=====
Shares used in computation of net loss per share	10,829	8,874	10,794	4,713
	=====	=====	=====	=====

See accompanying notes.

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

	Six Months Ended April 30,	
	1997	1996
	----	----
Cash flows from operating activities:		
Net loss	\$ (5,867)	\$ (1,515)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of assets under capital leases	251	195
Amortization of intangibles	17	--
Amortization of deferred compensation	56	56
Write-off of purchased in-process research and development	3,022	--
Changes in current assets and liabilities (net of effects of Dock Resins acquisition):		
Accounts receivable	(69)	(10)
Inventories	91	(20)
Prepaid expenses and other current assets	(63)	(122)
Accounts payable	(177)	7
Accrued compensation	114	24
Other accrued liabilities	(71)	142
Deferred revenue	125	175
	-----	-----
Total adjustments	3,296	447
	-----	-----
Net cash used in operating activities	(2,571)	(1,068)
	-----	-----
Cash flows from investing activities:		
Purchases of property and equipment	(675)	(189)
Increase in other assets	1	26
Acquisition of Dock Resins, net of cash acquired	(3,230)	--
Purchases of available-for-sale securities	(14,404)	(20,108)
Sale of available-for-sale securities	4,041	--
Maturities of available-for-sale securities	13,550	3,000
	-----	-----
Net cash used in investing activities	(717)	(17,271)
	-----	-----
Cash flows from financing activities:		
Purchase of restricted investment	(8,838)	--
Proceeds from sale of common stock	94	35,062
Proceeds from repayment of notes receivable	--	9
Payments of long-term debt	(110)	(136)
	-----	-----
Net cash (used in) provided by financing activities	(8,854)	34,935
	-----	-----
Net (decrease) increase in cash and cash equivalents	(12,142)	16,596
Cash and cash equivalents at beginning of period	14,185	3,585
	-----	-----
Cash and cash equivalents at end of period	\$ 2,043	\$ 20,181
	=====	=====

See accompanying notes.

LANDEC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Landec Corporation (the "Company" or "Landec") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations, and cash flows at April 30, 1997, and for all periods presented, have been made. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying financial data should be reviewed in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1996.

The results of operations for the three and six month periods ended April 30, 1997 are not necessarily indicative of the results that may be expected for the fiscal year ended October 31, 1997.

2. Acquisition of Dock Resins

On April 18, 1997, the Company acquired Dock Resins Corporation ("Dock Resins") a privately-held manufacturer and marketer of specialty acrylics and other polymers located in Linden, New Jersey for approximately \$15.8 million comprised of \$13.7 million in cash, a secured promissory note due in January 1998 and direct acquisition costs along with 396,039 shares of common stock valued at \$2.1 million. A payable of \$9.5 million has been recorded to recognize the promissory note and other liabilities related to the acquisition. An investment of \$8.8 million has been set aside as security for payment of the promissory note. In addition, \$1.5 million of the cash consideration and all of the equity consideration was set aside in escrow to cover future costs associated with obligations under the representations and warranties made by Dock Resins in connection with the acquisition. The acquisition has been accounted for using the purchase method. The purchase price has been allocated to the acquired assets and liabilities based on their relative fair values. These allocations were based on independent valuations and other studies as of the date of acquisition. The following is a summary of the purchase price allocation (in thousands):

Net assets and liabilities	\$ 3,181
Property, plant and equipment	2,501
Covenant not to compete	77
Customer base	496
Work force in place	690
Trademark	775
Developed technology	5,036
In-process research and development	3,022
	-----
	\$ 15,778
	=====

The intangible assets are being amortized over five to twenty years based on their individually estimated useful lives. The \$3,022,000 allocated to in-process research and development technology, as determined by an independent appraisal, was expensed during the quarter ended April 30, 1997 as required under generally accepted accounting principles. The \$2,501,000 allocated to property, plant and equipment is based on its fair value as determined by an independent appraisal.

The Company's results of operations and cash flows for the three months and six months ended April 30, 1997 include the results of Dock Resins from April 18, 1997 through April 30, 1997.

3. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market after writing-up inventories acquired from Dock Resins to their estimated fair market values net of estimated selling costs, and consisted of the following:

	April 30, 1997 ----	October 31, 1996 ----
	(in thousands)	
Raw materials . . . . .	\$ 690	\$ 149
Work in process . . . . .	173	245
Finished goods . . . . .	1,432	155
	-----	-----
	\$ 2,295	\$ 549
	=====	=====

Item 2.

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

The following discussion should be read in conjunction with the unaudited consolidated financial statements and notes thereto included in Part I--Item 1 of this Form 10Q and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended October 31, 1996 contained in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1996.

Except for the historical information contained herein, the matters discussed in this report are forward-looking statements that involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Potential risks and uncertainties include, without limitation, those mentioned in this report and, in particular the factors described below under "Additional Factors That May Affect Future Results," and those mentioned in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1996, under "Risk Factors."

Overview

Since its inception in October 1986, the Company has been primarily engaged in the research and development of its Intelimer(R) technology and related products. The Company launched its first product line, QuickCast(TM) splints and casts, in April 1994. The Company launched its second product line, Intellipac(TM) breathable membranes for the fresh-cut produce packaging market, in September 1995. To date, the Company has recognized \$2.1 million in total QuickCast product and Intellipac breathable membrane sales. On April 18, 1997 the Company acquired Dock Resins, which is primarily engaged in the manufacturing and marketing of specialty acrylics and other polymers. For the period from the acquisition date to April 30, 1997 the Company recognized \$516,000 in revenue from Dock Resins' product sales. The balance of revenues to date have resulted from license fees, collaborative arrangements and Small Business Innovative Research government grants. The Company has been unprofitable since its inception and expects to incur additional losses, primarily due to the continuation of its research and development activities and expenditures necessary to further develop its manufacturing and marketing capabilities. From inception through April 30, 1997, the Company's accumulated deficit was \$37.2 million.

Results of Operations

Total revenues were \$1.0 million for the second quarter of fiscal year 1997 compared to \$1.3 million for the second quarter of fiscal year 1996. Revenues from product sales increased to \$767,000 in the second quarter of fiscal year 1997 from \$281,000 in the second quarter of fiscal year 1996 due primarily to \$516,000 of product sales from Dock Resins partially offset by lower sales of Intellipac breathable membrane products due to lower per unit sale prices. There were no revenues from license fees during the second quarter of fiscal year 1997 compared to \$600,000 during the second quarter of fiscal year 1996. The decrease in license fees revenue was due to a one time payment in the second quarter of 1996 under an expanded agreement with Nitta Corporation. Revenues from research and development funding decreased to \$242,000 for the second quarter of fiscal year 1997 from \$394,000 for the second quarter of fiscal year 1996. The decrease in research and development revenue was due primarily to fewer research and development contracts. For the first six months of fiscal year 1997 total revenues were \$1.4 million compared to \$1.7 million during the same period in 1996. Revenue from product sales for the first six months in fiscal year 1997 increased to \$940,000 from \$412,000 during the same period in 1996 due to \$516,000 of product sales from Dock Resins, a small increase in sales of QuickCast products partially offset by a small decrease in sales of Intellipac breathable membrane products. There were no revenues from license fees during the first six months of fiscal year 1997 compared to \$600,000 during the same period in 1996. Revenue from research and development funding for the first six months in fiscal year 1997 decreased to \$459,000 from \$682,000 during the same period in 1996 due to a decrease in research and development contracts in fiscal year 1997. The Company expects product sales to increase during the remainder of fiscal year 1997 based on the historical results of Dock Resins.

Cost of product sales consists of material, labor and overhead. Cost of product sales was \$634,000 for the second quarter of fiscal year 1997 compared to \$295,000 for the second quarter of fiscal year 1996, an increase of 115%. Cost of product sales as a percentage of product sales decreased to 83% in the second quarter of fiscal year 1997 from 105% in the second quarter of fiscal year 1996. Cost of product sales for the first six months of fiscal year 1997 was \$943,000 compared to \$539,000 during the same period in 1996, an increase of 75%. Cost of product sales as a percentage of product sales decreased to 100% for the first six months of fiscal year 1997 from 131% during the same period in 1996. These decreases in the cost of product sales as a percentage of product sales were primarily the result of a lower percentage cost of product sales in the Dock Resins product line. The Company anticipates that gross margins will improve during the remainder of





fiscal year 1997 due to revenues from Dock Resins product sales and the historically higher margins derived by Dock Resins. However, longer-term improvement is unpredictable due to the early stage commercialization of several of the Company's products and integration of certain of these products into Dock Resins' manufacturing process.

Research and development expenses were \$1.0 million for the second quarter of fiscal year 1997 compared to \$945,000 for the second quarter of fiscal year 1996, an increase of 9%. For the first six months of fiscal years 1997 and 1996 research and development expenses were relatively flat at \$1.9 million in both six-month periods. Research and development expenses increased in the second quarter of fiscal year 1997 from the second quarter of fiscal year 1996 primarily due to increased development costs for the Company's Intelimer polymer systems and Intellicoat(TM) 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 \$1.3 million for the second quarter of fiscal year 1997 compared to \$733,000 for the second quarter of fiscal year 1996, an increase of 80%. For the first six months of fiscal year 1997 selling, general and administrative expenses were \$2.2 million compared to \$1.2 million during the same period in 1996, an increase of 84%. Selling, general and administrative expenses increased primarily as a result of increased sales and marketing expenses and the additional administrative costs associated with supporting a public company for an entire six-month period (the Company's initial public offering was completed on February 15, 1996). Selling, general and administrative expenses consist primarily of sales and marketing expenses associated with the Company's product sales, business development expenses, staff and administrative expenses. Sales and marketing expenses increased to \$744,000 for the second quarter of fiscal year 1997 from \$378,000 for the second quarter of fiscal year 1996. For the first six months of fiscal year 1997 sales and marketing expenses increased to \$1.3 million compared to \$583,000 during the same period in 1996. The increase in sales and marketing expenses was primarily attributable to the costs to support four national U.S. distributors for QuickCast products including the creation of an internal sales department for QuickCast products and the creation of marketing departments for the Intelimer polymer systems and Intellicoat products. The Company expects that selling, general and administrative spending will increase in absolute dollars in future periods, although it may vary as a percentage of total revenues.

Net interest income of \$421,000 for the second quarter of fiscal year 1997 was relatively unchanged compared to \$431,000 for the second quarter of fiscal year 1996. For the first six months of fiscal year 1997 net interest income was \$895,000 compared to \$452,000 during the same period in 1996. Net interest income increased due to more cash being available for investing from the Company's initial public offering in February 1996.

#### Liquidity and Capital Resources

As of April 30, 1997 the Company had unrestricted cash, cash equivalents and short-term investments of \$21.2 million, a net decrease of \$15.3 million from \$36.5 million as of October 31, 1996. This decrease was primarily due to funding operating losses of \$2.6 million for the first six months of fiscal year 1997, and the net payment of \$3.2 million and restricted cash related to the acquisition of Dock Resins. The Company has payables totaling \$9.5 million related to the acquisition of Dock Resins which will be distributed by the first quarter of fiscal 1998. An investment totaling \$8.8 million has been set aside for payment of the related promissory note.

During the first six months of fiscal year 1997, the Company purchased seed processing equipment and incurred leasehold improvements expenditures to support the development of Intellicoat products. These expenditures represented the majority of the \$675,000 of property and equipment purchased during the first six months of fiscal year 1997.

The Company believes that existing cash, cash equivalents and short-term investments will be sufficient to finance its operational and capital requirements through at least the next twelve months. The Company's future capital requirements, however, depend on numerous factors, including the progress of its research and development programs; the development of commercial scale manufacturing capabilities; the development of marketing, sales and distribution capabilities; the ability of the Company to maintain existing collaborative arrangements and establish and maintain new collaborative arrangements; the assimilation and integration of Dock Resins into Landec; the timing and amount, if any, of payments received under research and development agreements; the costs involved in preparing, filing, prosecuting, defending and enforcing intellectual property rights; the ability to comply with regulatory requirements; the emergence of competitive technology and market forces; the effectiveness of product commercialization activities and arrangements; and other factors. If the Company's currently available funds, together with the internally generated cash flow are not sufficient to satisfy its financing needs, the Company would be required to seek additional funding through other arrangements with collaborative partners, bank borrowings and public or private sales of its securities. The Company has no credit facility or



other committed sources of capital. There can be no assurance that additional funds, if required, will be available to the Company on favorable terms.

#### Additional Factors That May Affect Future Results

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

**History of Operating Losses and Accumulated Deficit.** The Company has incurred net losses in each year since its inception, including net losses of \$4.6 million and \$267,000 during the second quarter of fiscal year 1997 and 1996, respectively, and the Company's accumulated deficit as of April 30, 1997 totaled \$37.2 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 and there can be no assurance that the Company will be able to reach profitability at all.

**Uncertainty Relating to Integration of Dock Resins.** The successful combination of the Company and Dock Resins will require substantial effort from each organization. The diversion of the attention of management and any difficulties encountered in the transition process could have an adverse impact on the Company's ability to realize the anticipated benefits of the acquisition. The successful combination of the two companies will also require coordination of their research and development, manufacturing, and sales and marketing efforts. In addition, the process of combining the two organizations could cause the interruption of, or a loss of momentum in, the Company's activities. There can be no assurance that the Company will be able to retain Dock Resins' key management, technical, sales and customer support personnel, or that the Company will realize the anticipated benefits of the acquisition.

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

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

**Dependence on Collaborative Partners.** The Company's strategy for the development, clinical and field testing, manufacturing, commercialization and marketing of certain of its current and future products includes entering into various collaborations with corporate partners, licensees and others. To date, the Company has entered into collaborative arrangements with The BFGoodrich Company and Hitachi Chemical Co., Ltd. ("Hitachi") in connection with its Intelimer polymer systems, Fresh Express Farms and PrintPack, Inc. ("PrintPack") in connection with its Intellipac breathable membrane products, Nitta Corporation ("Nitta") and Hitachi in connection with its adhesive products and Smith & Nephew Medical Limited ("Smith & Nephew"), Physician Sales and Services, Inc., North Coast Medical, Inc. and Sammons Preston, Inc. 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 the Company's revenues to date have been derived from commercial research and development collaborations and license agreements. In the second quarter of fiscal year 1997, development funding from these collaborative arrangements comprised approximately 24% of the Company's total revenues. Development funding from Hitachi and Nitta represented approximately 19% of the Company's revenues for the second quarter of fiscal year 1997. 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 1997, the Company terminated its relationship with Smith & Nephew for the sales and distribution of QuickCast products in certain European and Pacific Rim countries, Canada and South Africa.

In May of 1997, the Company agreed to amend its co-development and marketing agreement with PrintPack in the Intellipac breathable membrane area by removing the exclusivity restrictions. This amendment will allow Landec to explore other sources of packaging material and application equipment and product development opportunities while continuing the collaboration with PrintPack on a non-exclusive basis.

There can be no assurance that the Company's 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 on certain of its product sales to date. Although Dock Resins will provide practical knowledge in the scale-up of Intelimer polymer products, production in commercial-scale quantities may involve technical challenges for the Company. The Company anticipates that a substantial portion of the Company's products will be manufactured in the Linden, New Jersey facility acquired in the purchase of Dock Resins. The Company's reliance on this facility involves a number of risks, including the absence of adequate capacity, the unavailability of, or interruption in access to, certain process technologies and reduced control over delivery schedules, and manufacturing yields and costs. The Company may also need to consider seeking collaborative arrangements with other companies to manufacture certain of its products. If the Company is dependent upon third parties for the manufacture of its products, then the Company's profit margins and its ability to develop and deliver such products on a timely basis may be adversely affected. Moreover, there can be no assurance that such parties will adequately perform and any failures by third parties may delay the submission of products for regulatory approval, impair the Company's ability to deliver products on a timely basis, or otherwise impair the Company's competitive position. The occurrence of any of these factors could have a material adverse effect on the Company's business, operating results and financial condition. The manufacture of the Company's products will be subject to periodic inspection by regulatory authorities. There can be no assurance that the Company will be able

to obtain necessary regulatory approvals on a timely basis or at all. Delays in receipt of or failure to receive such approvals or loss of

previously received approvals would have a material adverse effect on the Company's business, financial condition and results of operations.

**Dependence on Single Source Suppliers.** Many of the raw materials used in manufacturing certain of the Company's products are currently purchased from a single source, including certain monomers used to synthesize Intelimer polymers and substrate materials for the Company's breathable membrane products. Upon manufacturing scale-up, the Company may enter into alternative supply arrangements. Although to date the Company has not experienced difficulty acquiring materials for the manufacture of its products, no assurance can be given that interruptions in supplies will not occur in the future, that the Company will be able to obtain substitute vendors, or that the Company will be able to procure comparable materials at similar prices and terms within a reasonable time. Any such interruption of supply could have a material adverse effect on the Company's ability to manufacture its products and, consequently, could materially and adversely affect the Company's business, operating results and financial condition.

**Customer Concentration.** In the past, a limited number of customers have accounted for a substantial portion of Dock Resins' net revenues. For the three months ended March 31, 1997 and the twelve months ended December 31, 1996, sales to Dock Resins' top five customers accounted for approximately 51% of Dock Resins' net revenues, with the top customer accounting for 28% and 29%, respectively, of Dock Resins' net revenues. The Company expects that for the foreseeable future a limited number of customers may account for a substantial portion of its net revenues from the Linden, New Jersey facility acquired in the purchase of Dock Resins. Dock Resins has in the past experienced changes from year to year in the composition of its major customer base and the Company believes this pattern may continue. Dock Resins does not have long-term purchase agreements with any of its customers. The reduction, delay or cancellation of orders from one or more major customers for any reason or the loss of one or more of such major customers could materially and adversely affect the Company's business, financial condition and results of operations. In addition, since the products manufactured in the Linden facility are often sole sourced to its customers, the Company's operating results could be materially and adversely affected if one or more of its major customers were to develop other sources of supply. There can be no assurance that Dock Resins' current customers will continue to place orders with the Company, that orders by existing customers will not be canceled or will continue at the levels of previous periods or that the Company will be able to obtain orders from new customers.

**Patents and Proprietary Rights.** The Company's success depends in large part on its ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. There can be no assurance that any pending patent applications will be approved, that the Company will develop additional proprietary products that are patentable, that any patents issued to the Company will provide the Company with competitive advantages or will not be challenged by any third parties or that the patents of others will not prevent the commercialization of products incorporating the Company's technology. The Company has received, and may in the future receive, from third parties, including some of its competitors, notices claiming that it is infringing third party patents or other proprietary rights. For example, the Company has received a letter alleging that its 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 affect 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.

**Environmental Regulations.** Federal state and local regulations impose various environmental controls on the discharge or disposal of toxic, volatile or otherwise hazardous chemicals and gases used in certain manufacturing processes. Dock Resins is involved in various investigations and proceedings conducted by the federal Environmental Protection Agency and certain state environmental agencies regarding disposal of waste materials. Although the factual situations and the progress of each of these matters differ, the Company believes it has retained adequate reserves to account for any resultant liability, including any New Jersey Industrial Site Recovery Act remediation regarding its Linden, New Jersey facility. In most cases, the Company's liability will be limited to sharing clean-up or other remedial costs with other potentially responsible parties. Any failure by the Company to control the use of, or to restrict adequately the discharge of, hazardous substances under present or future regulations could subject it to substantial liability or could cause its manufacturing operations to be suspended. There can be no assurance that changes in environmental regulations will not impose the need for additional capital equipment or other requirements.

**Limited Sales or Marketing Experience.** Although Dock Resins has experience in marketing products in certain common markets with Landec's Intelimer polymer products, the Company has only limited experience marketing and selling its Intelimer polymer products. While Dock Resins will provide consultation and in some cases direct marketing support for Landec's Intelimer polymer products, the Company intends to distribute certain of its products through its corporate partners and other distributors and to sell certain other products through a direct sales force. Establishing sufficient marketing and sales capability may require significant resources. There can be no assurance that the Company will be able to recruit and retain skilled sales management, direct salespersons or distributors, or that the Company's sales efforts will be successful. The Company has recently changed its distribution approach with respect to the QuickCast product line in the United States to include several national distributors. To the extent that the Company enters into distribution arrangements for the sale of its products, the Company will be dependent on the efforts of third parties. There can be no assurance that such efforts will be successful.

**International Operations and Sales.** In the second quarter of the fiscal year 1997 and 1996, approximately 22% and 66%, 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 be an important component 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.** In the past, the Company's results of operations have varied significantly from quarter to quarter and such fluctuations are expected to continue in the future. 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, the acquisition or disposal of a part of the business, or development of new, collaborative arrangements by the Company, its competitors or other parties, as well as government regulations, investor perception of the Company, fluctuations in the Company's operating results and general market conditions in the industry may cause the market price of the Company's Common Stock to fluctuate significantly. In addition, the stock market in general has recently experienced extreme price and volume fluctuations, which have particularly affected the market prices of technology companies and which have been unrelated to the operating performance of such companies. These broad fluctuations may adversely effect the market price of the Company's common stock.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

In connection with the acquisition of Dock Resins on April 18, 1997, the Company acquired all of the outstanding capital stock of Dock Resins in exchange for an aggregate of 396,039 shares of the Company's common stock and \$13.7 million in cash, a secured promissory note and direct acquisition costs. The issuance of securities in this Item 2 was deemed to be exempt from registration under the Securities Act of 1933, as amended (the "Act") in reliance on Section 4(2) of the Act as a transaction by an issuer not involving any public offering. The recipient of the securities in such transaction represented his intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in such transaction. The recipient was given adequate access to information about the Company.

Item 3. Defaults in Senior Securities

None

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

At the Company's Annual Meeting of Shareholders held on March 19, 1997 the following proposals were adopted by the margins indicated:

	Voted For -----	Number of Shares ----- Withheld -----
1. Three Class I directors were elected by the margins indicated to serve until the next odd numbered year Annual Meeting (1999) during which their successors will be elected and qualified:		
Ray F. Stewart	6,729,788	12,600
Stephen E. Halprin	6,729,288	13,100
Richard S. Schneider, Ph.D.	6,729,288	13,100

The four Class II directors were not up for election at the Annual Meeting. These four Class II directors, Gary T. Steele, Kirby L. Cramer, Richard Dulude, and Damion E. Wicker, M.D., will serve as Class II directors until the next even-numbered Annual Meeting (1998), when their successors will be elected and qualified.

	Voted For ---	Voted Against -----	Abstain -----	Broker Non-Votes -----
2. To approve the adoption of the Company's 1996 Stock Option Plan	5,073,371	502,099	18,200	1,148,718
3. To approve an amendment to the Company's 1995 Directors' Stock Option Plan to provide that the options granted thereunder vest in full on the date of grant.	6,241,859	83,954	9,700	406,875
4. To ratify the appointment of Ernst & Young LLP as independent public accountants of the Company for the fiscal year ending October 31, 1997.	6,735,884	3,404	3,100	0

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.17 1996 Stock Option Plan and Form of Option Agreements

27.1 Financial Data Schedule

(b) There were no reports on Form 8-K filed during the quarter ended April 30, 1997. On May 6, 1997, the Company filed a Form 8-K reporting the acquisition of Dock Resins.

SIGNATURES

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

LANDEC CORPORATION

By:/s/ JOY T. FRY

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

Date: June 13, 1997

LANDEC CORPORATION

INDEX TO EXHIBITS

Exhibit ----- Number -----	Exhibit -----	Sequentially ----- Numbered Page -----
10.17	1996 Stock Option Plan and Form of Option Agreement	19
27.1	Financial Data Schedule	37



## 1996 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 may be either Incentive Stock Options (as defined under Section 422 of the Code) or Nonstatutory Stock Options, at the discretion of the Board and as reflected in the terms of the written option agreement.

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; 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.

(l) "Employee" shall mean any person (including any Named Executive, 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) "Incentive Stock Option" shall mean 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.

(p) "Named Executive" shall mean any individual who, on the last day of the Company's fiscal year, is the chief executive officer of the Company (or is acting in such capacity) or among the four highest compensated officers of the Company (other than the chief executive officer). Such officer status shall be determined pursuant to the executive compensation disclosure rules under the Exchange Act.

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

(r) "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.

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

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

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

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

(w) "Plan" shall mean this 1996 Stock Option Plan.

(x) "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.

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

(z) "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 14 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.

(i) Multiple Administrative Bodies. If permitted by Rule 16b-3, and by the legal requirements relating to the administration of incentive stock option plans, if any, of applicable securities laws and the Code (collectively, the "Applicable Laws"), grants under the Plan may (but need not) be made by different administrative bodies with respect to Directors, Officers who are not directors and Employees who are neither Directors nor Officers.

(ii) Administration with respect to Directors and Officers. With respect to grants of Options to Employees or Consultants who are also Officers or Directors of the Company, grants under the Plan shall be made by (A) the Board, if the Board may make grants under the Plan in compliance with Rule 16b-3 and Section 162(m) of the Code as it applies so as to qualify grants of Options to Named Executives as performance-based

compensation, or (B) a Committee designated by the Board to make 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, to qualify grants of Options to Named Executives as performance-based compensation under Section 162(m) of the Code and otherwise so as to satisfy the Applicable Laws.

(iii) Administration with respect to Other Persons. With respect to grants of Options to Employees or Consultants who are neither Directors nor Officers of the Company, 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 Applicable Laws.

(iv) General. If a Committee has been appointed pursuant to subSection (ii) or (iii) of 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 and, in the case of a Committee appointed under subSection (ii), to the extent permitted by Rule 16b-3 and to the extent required under Section 162(m) of the Code to qualify grants of Options to Named Executives as performance-based compensation.

(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(m) 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. Nonstatutory Stock Options may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees, provided, however, that Employees of an Affiliate shall not be eligible to receive Incentive Stock Options. 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 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 Incentive Stock Options are exercisable for the first time by an 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 shall be determined as of the time the Option with respect to such Shares is granted.

(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 the earlier to occur of its adoption by the Board or its approval by the shareholders of the Company as described in Section 20 of the Plan. It shall continue in effect for a term often (10) years unless sooner terminated under Section 16 of the Plan.

7. Term of Option. The term of each Option shall be the term stated in the Option Agreement; provided, however, that in the case of an Incentive Stock Option, 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. However, in the case of an Incentive Stock 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 Option Agreement.

8. Limitation on Grants to Employees. Subject to adjustment as provided in this Plan, the maximum number of Shares which may be subject to options granted to any one Employee under this Plan for any fiscal year of the Company shall be 500,000.

9. 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, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(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 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; or

(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

(A) granted to a person who, at the time of the grant of such Option, is a Named Executive of the Company, the per share Exercise Price shall be no less than 100% of the Fair Market Value on the date of grant; or

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

(iii) Notwithstanding anything to the contrary in subsections 9(a)(i) or 9(a)(ii) above, in the case of an Option granted on or after the effective date of registration of any class of equity security of the Company pursuant to Section 12 of the Exchange Act and prior to six months after the termination of such registration, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(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, 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 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, (4) 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) 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.

#### 10. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. 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 shareholder 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 three (3) months in the case of an Incentive Stock Option or six (6) months in the case of a Nonstatutory Stock Option, 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) 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, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option) 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 six (6) months, 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) 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, subject to the limitation set forth in Section 5(b); or

(ii) within thirty (30) days (or such other period of time not exceeding three (3) months 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) 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.

(e) Rule 16b-3. Options granted to persons subject to Section 16(b) of the Exchange Act must comply with Rule 16b-3 and shall contain 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.

11. 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.

12. 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").

Any surrender by an Officer or Director 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 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.

13. 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 Nonstatutory Stock 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 13.

14. 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, 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, the maximum number of shares of Common Stock for which Options may be granted to any employee under Section 8 of the Plan, and the price per share of Common Stock covered by each 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.

15. 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; 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 is so granted within a reasonable time after the date of such grant.

16. 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, the following revisions or amendments shall require approval of the shareholders of the Company in the manner described in Section 20 of the Plan:

(i) any increase in the number of Shares subject to the Plan, other than an adjustment under Section 14 of the Plan;

(ii) any change in the designation of the class of persons eligible to be granted Options; or

(iii) any change in the limitation on grants to employees as described in Section 8 of the Plan or other changes which would require shareholder approval to qualify options granted hereunder as performance-based compensation under Section 162(m) of the Code.

(b) Shareholder Approval. If any amendment requiring shareholder approval under Section 16(a) of the Plan is made subsequent to the first registration of any class of equity securities by the Company under Section 12 of the Exchange Act, such shareholder approval shall be solicited as described in Section 20 of the Plan.

(c) 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.

17. 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.

18. 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.

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

20. Shareholder Approval.

(a) Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the manner and to the degree required under applicable federal and state law and the rules of any stock exchange upon which the Shares are listed.

(b) In the event that the Company registers any class of equity securities pursuant to Section 12 of the Exchange Act, any required approval of the shareholders of the Company obtained after such registration shall be solicited substantially in accordance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder.

(c) If any required approval by the shareholders of the Plan itself or of any amendment thereto is solicited at any time otherwise than in the manner described in Section 20(b) hereof, then the Company shall, at or prior to the first annual meeting of shareholders held subsequent to the later of (1) the first registration of any class of equity securities of the Company under Section 12 of the Exchange Act or (2) the granting of an Option hereunder to an officer or director after such registration, do the following:

(i) furnish in writing to the holders entitled to vote for the Plan substantially the same information that would be required (if proxies to be voted with respect to approval or disapproval of the Plan or amendment were then being solicited) by the rules and regulations in effect under Section 14(a) of the Exchange Act at the time such information is furnished; and

(ii) file with, or mail for filing to, the Securities and Exchange Commission four copies of the written information referred to in subsection (i) hereof not later than the date on which such information is first sent or given to shareholders.

LANDEC CORPORATION  
1996 STOCK OPTION PLAN  
NOTICE OF 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):	ExercisePrice
Exercise Price Per Share:	ExercisePrice
Total Number of Shares Granted:	SharesGranted
Total Price of Shares Granted:	TotalExercisePrice
Type of Option:	NoSharesISO Shares Incentive Stock 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 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 Stock Option Plan and the 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

STOCK OPTION AGREEMENT

1. Grant of Option. Landec Corporation, a California corporation (the "Company"), hereby grants to the Optionee named in the Notice of Stock Option Grant attached to this Agreement ("Optionee"), an option (the "Option") to purchase the 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 1996 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.

To the extent designated an Incentive Stock Option in the Notice of Stock Option Grant, this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") and, to the extent not so designated, this Option is intended to be a Nonstatutory Stock Option.

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 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 Stock Option Grant.

(iv) If designated an Incentive Stock Option in the Notice of Stock Option Grant, in the event that the Shares subject to this Option (and all other Incentive Stock Options granted to Optionee by the Company or any Parent or Subsidiary) that vest in any calendar year have an aggregate fair market value (determined for each Share as of the Date of Grant of the option covering such Share) in excess of \$100,000, the Shares in excess of \$100,000 shall be treated as subject to a Nonstatutory Stock Option, in accordance with Section 5 of the Plan.

(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 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 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, subject to the limitation contained in Section 2(i)(d) above in the case of an Incentive Stock Option; 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 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 Incentive Stock Option. If this Option is an Incentive Stock Option, there will be no regular federal 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 item of alternative minimum taxable income 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, Optionee may incur regular federal 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. 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.

(c) Disposition of Shares. If this Option is an Incentive Stock Option and if Shares transferred pursuant to the Option are held for more than one year after exercise and more than two years after the Date of Grant, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. If Shares purchased under an Incentive Stock Option are disposed of before the end of either of such two holding periods, then any gain realized on such disposition will be treated as compensation income (taxable at ordinary

income rates) to the extent of the excess, if any, of the lesser of (i) the fair market value of the Shares on the date of exercise, or (ii) the sales proceeds, over the Exercise Price. If this Option is a Nonstatutory Stock Option, then gain realized on the disposition of Shares will be treated as long-term or short-term capital gain depending on whether or not the disposition occurs more than one year after the exercise date.

(d) Notice of Disqualifying Disposition. If the Option granted to Optionee in this Agreement is an Incentive Stock Option, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the 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 transfer of such Shares to Optionee upon exercise of the Incentive Stock Option, Optionee shall notify the Company in writing within thirty (30) days after the date of any such disposition. Optionee agrees that Optionee 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.

13. Signature. This Stock Option Agreement shall be deemed executed by the Company and Optionee upon execution by such parties of the Notice of 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 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 Stock Option Plan and the Stock Option Agreement dated \_\_\_\_\_, as follows:

Grant Number: \_\_\_\_\_  
Date of Purchase: \_\_\_\_\_  
Number of Shares: \_\_\_\_\_  
Purchase Price: \_\_\_\_\_  
Method of Payment  
of Purchase Price: \_\_\_\_\_

Social Security No.: \_\_\_\_\_

The shares should be issued as follows:

Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Signed: \_\_\_\_\_  
Date: \_\_\_\_\_

5

1,000

6-MOS

OCT-31-1997  
NOV-01-1996  
APR-01-1997  
2,043  
27,952  
2,124  
(78)  
2,295  
34,692  
6,424  
(2,536)  
45,763  
12,480  
0  
0  
0  
70,433  
(37,436)  
45,763  
940  
1,399  
943  
2,889  
3,022  
20  
37  
(5,867)  
0  
(5,867)  
0  
0  
0  
(5,867)  
(.54)  
(.54)