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

FORM 10-Q

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

FOR THE FISCAL QUARTER ENDED JULY 31, 1998, OR

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

For the Transition period from _____ to _________.

Commission file number: 0-27446

LANDEC CORPORATION

(Exact name of registrant as specified in its charter)

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

3603 HAVEN AVENUE
MENLO PARK, CALIFORNIA 94025
(Address of principal executive offices)

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

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

Yes X No -----

As of September 1, 1998, 12,812,876 shares of the Registrant's common stock were outstanding.

LANDEC CORPORATION

FORM 10-Q For the Quarter Ended July 31, 1998

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LANDEC CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)
(IN THOUSANDS)

	July 31, 1998	October 31, 1997
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5,997	$ 5,163
Short-term investments	2,461	9,506
Restricted investment	--	8,837
Accounts receivable, net	2,152	2,162
Inventory	4,527	2,652
Prepaid expenses and other current assets	1,532	1,720
Total Current Assets	16,669	30,040
Property and equipment, net	7,214	5,023
Intangible assets, net	14,538	14,985
Other assets	45	112
	$ 38,466	$ 50,160
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 920	$ 642
Accrued compensation	872	836
Other accrued liabilities	876	1,520
Payable related to acquisition of Dock Resins Corporation	--	9,189
Deferred revenue	49	2,326
Current portion of long term debt	12	6
Total Current Liabilities	2,729	14,519
Non-current portion of long term debt	27	26
Shareholders' Equity:		
Preferred stock	--	--
Common stock	75,982	75,679
Notes receivable from shareholders	--	(8)
Deferred compensation	(114)	(198)
Accumulated deficit	(40,158)	(39,858)
Total Shareholders' Equity	35,710	35,615
	$ 38,466	$ 50,160

SEE ACCOMPANYING NOTES.

LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER-SHARE DATA)

	Three Months Ended July 31, 1998	Three Months Ended July 31, 1997	Nine months Ended July 31, 1998	Nine months Ended July 31, 1997
Revenues:				
Product sales	$ 4,932	$ 4,095	$ 26,625	$ 4,835
License fees	--	--	500	--
Research and development revenues	342	212	1,129	671
Total revenues	5,274	4,307	28,254	5,506
Operating costs and expenses:				
Cost of product sales	3,251	2,714	17,159	3,269
Research and development	1,387	1,370	4,022	3,316
Selling, general and administrative	2,235	1,327	7,780	2,892
Purchase of in-process research and development	--	--	--	3,022
Total operating costs and expenses	6,873	5,411	28,961	12,499
Operating loss	(1,599)	(1,104)	(707)	(6,993)
Interest income	155	421	619	1,352
Interest expense	(7)	(159)	(112)	(181)
Loss from continuing operations before provision for income taxes	(1,451)	(842)	(200)	(5,822)
Income tax benefit (expense)	137	--	(91)	--
Loss from continuing operations	(1,314)	(842)	(291)	(5,822)
Loss from discontinued QuickCast operation	--	(172)	--	(1,059)
Net loss	$ (1,314)	$ (1,014)	$ (291)	$ (6,881)
Net loss per share:				
Continuing operations	$ (0.10)	$ (0.07)	$ (0.02)	$ (0.53)
Discontinued operations	--	(0.02)	--	(0.10)
Total net loss per share	$ (0.10)	$ (0.09)	$ (0.02)	$ (0.63)
Shares used in computation of net loss per share:	12,781	11,226	12,738	10,938

SEE ACCOMPANYING NOTES.

LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)
(IN THOUSANDS)

	Nine months Ended July 31, 1998	1997
Cash flows from operating activities:		
Net loss from continuing operations	$ (291)	$ (5,822)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,454	587
Amortization of deferred compensation	84	85
Write-off of purchased in-process research and development	--	3,022
Loss from discontinued operations	--	(1,059)
Changes in current assets and liabilities (net of effects of Dock Resins Corporation acquisition in April 1997):		
Accounts receivable	10	(341)
Inventories	(1,875)	261
Prepaid expenses and other current assets	188	(274)
Accounts payable	278	(496)
Accrued compensation	36	97
Other accrued liabilities	(644)	140
Deferred revenue	(2,277)	(62)
Total adjustments	(2,746)	1,960
Net cash used in operating activities	(3,037)	(3,862)
Cash flows from investing activities:		
Purchases of property and equipment	(2,808)	(1,043)
Increase (decrease) in other assets	67	(68)
Acquisition costs, net of cash acquired	(390)	(3,230)
Purchases of available-for-sale securities	(5,003)	(14,607)
Sale of available-for-sale securities	4,805	4,041
Maturities of available-for-sale securities	7,234	21,603
Net cash provided by (used in) investing activities:	3,905	6,696
Cash flows from financing activities:		
Proceeds from sale of restricted investment	8,837	--
Purchase of restricted investment	--	(8,837)
Proceeds from sale of common stock	303	150
Proceeds from repayment of notes receivable	8	--
Payment of payable to Dock Resins Corporation	(9,189)	(423)
Proceeds from issuance of long term debt	29	--
Payments on long term debt	(22)	(169)
Net cash used in financing activities	(34)	(9,279)
Net increase (decrease) in cash and cash equivalents	834	(6,445)
Cash and cash equivalents at beginning of period	5,163	14,185
Cash and cash equivalents at end of period	$ 5,997	$ 7,740

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 (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations, and cash flows at July 31, 1998, 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, 1997.

The results of operations for the three and nine month periods ended July 31, 1998 are not necessarily indicative of the results that may be expected for the fiscal year ended October 31, 1998. For instance, due to the cyclical nature of the corn seed industry, a significant portion of Fielder's Choice Hybrids' ("Fielder's Choice", a division of Intellicoat Corporation, a subsidiary of the Company) revenues and profits will be concentrated over a few months during the spring planting season (generally during the Company's second fiscal quarter).

1. RECLASSIFICATIONS

Certain reclassifications have been made to the prior period financial statements to conform to the current year presentation.

3. INVENTORIES

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

	JULY 31, 1998	OCTOBER 31, 1997
Raw materials	$ 700	$ 617
Work in process	619	152
Finished goods	3,208	1,883
	$ 4,527	$ 2,652

4. LICENSING OF PORT-TM- TECHNOLOGY

In December 1997, the Company licensed the rights to worldwide manufacturing, marketing and distribution of the PORT-TM- ophthalmic devices to Alcon Laboratories, Inc. ("Alcon") in exchange for $500,000 in cash, and future license revenue, research and development revenue and royalties on the sale of commercial products. For the nine months ended July 31, 1998, the Company recognized $500,000 in license revenues and $452,000 in research and development revenues associated with this arrangement.

5. COMMITMENTS

In December 1997, Dock Resins Corporation ("Dock Resins"), a wholly owned subsidiary of the Company, entered into a loan and security agreement which provides a $1,250,000 working capital line of credit and a $2,750,000 term loan to finance capital expenditures. Borrowings under the loan agreement are collateralized by substantially all of Dock Resins' assets. As of July 31, 1998, no amounts had been borrowed against this agreement.

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 10-Q and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1997.

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, 1997.

OVERVIEW

Since its inception in October 1986, the Company has been primarily engaged in the research and development of its Intelimer-Registered Trademark- technology and related products. The Company has launched three product lines from this core development -- QuickCast-TM- splints and casts, in April 1994; Intellipac-Registered Trademark- breathable membranes for the fresh-cut produce packaging market, in September 1995; and Intelimer Polymer Systems for the industrial specialties market in June 1997.

Management has recently implemented a focused strategy of building strong, vertically integrated businesses in three industries: Food Packaging, Industrial High Performance Materials and Agricultural Seed and Distribution. As part of this strategy, the Company has completed several strategic transactions. In April 1997, the Company acquired Dock Resins and incorporated it into its Industrial High Performance Materials business. Dock Resins is primarily engaged in the manufacturing and marketing of specialty acrylics and other polymers. In September 1997, Intellicoat Corporation ("Intellicoat"), a subsidiary of the Company focused on Agricultural Seed and Distribution, acquired Fielder's Choice, a direct marketer of hybrid seed corn. To remain focused on the three core businesses, the Company licensed two of its healthcare products. In August 1997, the Company sold its QuickCast product line to Bissell Healthcare Corporation of Bolingbrook, Illinois. In December 1997, the Company licensed the rights to worldwide manufacturing, marketing and distribution of the PORT ophthalmic devices to Alcon.

With the exception of the second quarter of fiscal year 1998, 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, charges related to acquisitions, and expenditures necessary to further develop its manufacturing and marketing capabilities. From inception through July 31, 1998, the Company's accumulated deficit was $40.2 million.

RESULTS OF OPERATIONS

The Company's results of operations reflect only continuing operations of the Company. The results of the discontinued QuickCast operation are discussed separately in the respective sections.

Total revenues were $5.3 million for the third quarter of fiscal year 1998 compared to $4.3 million for the third quarter of fiscal year 1997. Revenues from product sales increased to $4.9 million in the third quarter of fiscal year 1998 from $4.1 million in the third quarter of fiscal year 1997 due primarily to product sales of $413,000 from Fielder's Choice, which the Company did not acquire until the fourth quarter of fiscal year 1997. Also contributing to the increase was Intellipac breathable membrane product sales which increased from $465,000 in the third quarter of fiscal year 1997 to $800,000 in the third quarter of fiscal year 1998, due primarily to an increase in unit sales. Product sales for the discontinued QuickCast product line for the third quarter of fiscal year 1997 through the measurement date of June 12, 1997 were $41,000, which was included in the loss from discontinued operations. Revenues from research and development funding were $342,000 for the third quarter of fiscal year 1998 compared to $212,000 for the third quarter of fiscal year 1997. The increase in research and development revenues was primarily due to an agreement the Company entered into in December 1997 with Alcon for the funding of the PORT program. For the first nine months of fiscal year 1998, total revenues were $28.3 million compared to $5.5 million during the same period in 1997. Revenue from product sales for the first nine months of fiscal year 1998 increased to $26.6 million from $4.8 million during the same period in 1997 due primarily to product sales of $13.3 million and $11.3 million from Fielder's Choice and Dock Resins, respectively. Also contributing to the increase was sales of the Intellipac breathable membrane product, which increased to $2.0 million for the first nine months of fiscal year 1998 from $689,000 for the first nine months of fiscal year 1997 due primarily to an increase in unit sales. Product sales for the discontinued QuickCast product line for the first nine months of fiscal year 1997 through the measurement date of June 12, 1997, were $241,000 which was included in the loss from discontinued operations. Revenues from license fees were $500,000 for the first nine months of fiscal year 1998 compared to none during the same period of fiscal year 1997. The increase in license fees was due to an upfront payment received from Alcon in exchange for the license rights to worldwide manufacturing, marketing and distribution of the PORT ophthalmic devices. Revenues from research and development funding for the first nine months of fiscal year 1998 increased to $1.1 million from $671,000 during the same period of fiscal year 1997. The increase in research and development revenues was primarily due to the agreement with Alcon for the funding of the PORT program.

Cost of product sales consists of material, labor and overhead. Cost of product sales was $3.3 million for the third quarter of fiscal year 1998 compared to $2.7 million for the third quarter of fiscal year 1997. Cost of product sales as a percentage of product sales remained unchanged at 66% for the third quarter of fiscal years 1998 and 1997. Cost of product sales for the first nine months of fiscal year 1998 was $17.2 million compared to $3.3 million during the same period in 1997. Cost of product sales as a percentage of product sales decreased to 64% for the first nine months of fiscal year 1998 from 68% during the same period in 1997. These decreases in the cost of product sales as a percentage of product sales were primarily the result of higher margins resulting from product sales of the Fielder's Choice products. Cost of product sales for the discontinued QuickCast product line for the third quarter and for the first nine months of fiscal year 1997 through the measurement date of June 12, 1997 were $74,000 and $462,000, respectively and were included in the loss from discontinued operations. The Company anticipates that gross margins as a percentage of revenue will fluctuate from quarter to quarter due to the seasonal nature of the Company's agriculture product line among other factors and will likely decrease during the fourth quarter of fiscal year 1998 due to Fielder's Choice recognizing all of its revenue and profits during the first nine months of fiscal year 1998.

Research and development expenses remained unchanged at $1.4 million for the third quarter of fiscal years 1998 and 1997. For the first nine months of fiscal year 1998, research and development expenses were $4.0 million compared to $3.3 million during the same period in 1997, an increase of 21%. The increase in research and development expenses for the nine month period ended July 31, 1998 compared to the same period of fiscal year 1997 was primarily due to a full nine months of research and development costs incurred by Dock Resins in fiscal year 1998 (which the Company acquired in April 1997), and increased costs for the Intellipac breathable membrane products. The Company's research and development expenses consist primarily of expenses involved in the development, process scale-up and efforts to protect intellectual property content of the Company's enabling side chain crystallizable polymer technology and research and development expenses related to Dock Resins' 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 $2.2 million for the third quarter of fiscal year 1998 compared to $1.3 million for the third quarter of fiscal year 1997, an increase of 68%. For the first nine months of fiscal year 1998 selling, general and administrative expenses were $7.8 million compared to $2.9 million during the same period of fiscal year 1997, an increase of 169%. Selling, general and administrative expenses consist primarily of sales and marketing expenses associated with the Company's product sales, business development expenses, and staff and administrative expenses. The increase in selling, general and administrative expenses for the three and nine month periods ended July 31, 1998 compared to the same periods of fiscal year 1997 was primarily due to the addition of selling, general and administrative costs related to the acquisitions of Dock Resins in April 1997, and Fielder's Choice in September 1997. Sales and marketing expenses increased to $1.4 million for the third quarter of fiscal year 1998 from $489,000 for the third quarter of fiscal year 1997. For the first nine months of fiscal year 1998, sales and marketing expenses increased to $4.7 million compared to $1.1 million during the same period in 1997. The increase in sales and marketing expenses for the three and nine month periods ended July 31, 1998 compared to the same periods of fiscal year 1997 was primarily attributable to the addition of sales and marketing costs related to the acquisitions of Dock Resins in April 1997, and Fielder's Choice in September 1997. Sales and marketing costs for the discontinued QuickCast product line for the third quarter and for the first nine months of fiscal year 1997 through the measurement date of June 12, 1997 were $138,000 and $823,000, respectively, and were included in the loss from discontinued operations. In future periods, the Company expects total selling, general and administrative spending will continue to increase in absolute dollars, although it may vary as a percentage of total revenues.

Net interest income for the three and nine month periods ended July 31, 1998 were $148,000 and $507,000, respectively, compared to $262,000 and $1.2 million for the same periods of fiscal year 1997. These decreases in net interest income were due principally to less cash being available for investing.

LIQUIDITY AND CAPITAL RESOURCES

As of July 31, 1998 the Company had unrestricted cash, cash equivalents and short-term investments of $8.5 million, a net decrease of $6.2 million from $14.7 million as of October 31, 1997. This decrease was primarily due to cash used in operations of $3.0 million for the first nine months of fiscal year 1998, of which $2.2 million was used by Fielder's Choice to purchase seed inventory to be used during the 1999 selling season, and to purchase $2.8 million of property and equipment. Although the Company reduced the cash used in operations during the first nine months of fiscal year 1998 as compared to the same period during 1997, there can be no assurance that the Company will continue to do so in future periods.

During the first nine months of fiscal year 1998, the Company purchased seed processing equipment and computer hardware and software and incurred building improvement expenditures to support the development of Intellicoat products, incurred leasehold improvement expenditures at its Menlo Park location to upgrade existing facilities and incurred building and equipment improvement expenditures at Dock Resins to expand capacity. These expenditures represented the majority of the $2.8 million of property and equipment purchased during the first nine months of fiscal year 1998.

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, will depend on numerous factors, including the progress of its research and development programs; the development of commercial scale manufacturing capabilities; the development of marketing, sales and distribution capabilities; the ability of the Company to maintain existing collaborative and licensing arrangements and establish and maintain new collaborative and licensing arrangements; the assimilation and integration of Dock Resins and Fielder's Choice into Landec and Intellicoat, respectively; the timing and amount, if any, of payments received under licensing and research and development agreements; the costs involved in preparing, filing, prosecuting, defending and enforcing intellectual property rights; the ability to comply with regulatory requirements; the emergence of competitive technology and market forces; the effectiveness of product commercialization activities and arrangements; and other factors. If the Company's currently available funds, together with the internally generated cash flow from operations, are not sufficient to satisfy its 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. There can be no assurance that additional funds, if required, will be available to the Company on favorable terms if at all.

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 and of Section 21E and Rule 3b-6 under the Securities Exchange Act of 1934. Specifically, the Company wishes to alert readers that the following important factors, as well as other factors including, without limitation, those described elsewhere in this Report, 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 periods to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company. The Company assumes no obligation to update such forward-looking statements.

HISTORY OF OPERATING LOSSES AND ACCUMULATED DEFICIT. The Company has incurred net losses in each fiscal year since its inception, including a loss from continuing operations of $291,000 for the nine months ended July 31, 1998. The

Company's accumulated deficit as of July 31, 1998 totaled $40.2 million. The Company may incur additional losses in the future. The amount of future net losses is highly uncertain and there can be no assurance that the Company will be able to reach or sustain profitability for an entire fiscal year.

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. Due to the cyclical nature of the corn seed industry, a significant portion of Fielder's Choice revenues and profits will be concentrated over a few months during the spring planting season (generally during the Company's second quarter). In addition, 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. The Company also cannot predict rates of licensing fees and royalties received from its partners. 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 be profitable in the future.

UNCERTAINTY RELATING TO INTEGRATION OF NEW BUSINESS ACQUISITIONS. The successful combination of the Company and Dock Resins and Intellicoat and Fielder's Choice has required and will continue to require substantial effort from each organization. The diversion of the attention of management and any difficulties encountered in the transition process could have a material adverse effect on the Company's ability to realize the anticipated benefits of the acquisitions. The successful combination of the companies also requires coordination of their research and development, manufacturing, and sales and marketing efforts. In addition, the process of combining the 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 key management, technical, sales and customer support personnel of Dock Resins and Fielder's Choice, or that the Company will realize the anticipated benefits of the acquisitions, and the failure to do so would have a material adverse effect on the Company's business, operating results and financial condition.

EARLY COMMERCIALIZATION OF CERTAIN PRODUCTS; DEPENDENCE ON NEW PRODUCTS AND TECHNOLOGIES; UNCERTAINTY OF MARKET ACCEPTANCE. The Company is in the early stage of product commercialization of certain Intelimer polymer 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 food products, industrial, agricultural and medical 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 costs 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 successfully market new products would 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 and licensees 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 would have a material adverse effect on the Company's business, operating results and financial condition.

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 food products, industrial, agricultural and medical companies is expected to be intense. In addition, the nature of the Company's collaborative

arrangements may result in its corporate partners and licensees 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 products sold. Although the Company believes Dock Resins will provide Landec with 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 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 potential 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 low manufacturing yields and high manufacturing costs. The Company may also need to consider seeking collaborative arrangements with other companies to manufacture certain of its products. If the Company becomes 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 impair the Company's ability to deliver products on a timely basis, impair the Company's competitive position, or may delay the submission of products for regulatory approval. The occurrence of any of these factors could have a material adverse effect on the Company's business, operating results and financial condition. The manufacture of the Company's products will be subject to periodic inspection by regulatory authorities. There can be no assurance that the Company will be able to obtain necessary regulatory approvals on a timely basis or at all. Delays in receipt of or failure to receive such approvals or loss of previously received approvals would have a material adverse effect on the Company's business, financial condition and results of operations.

DEPENDENCE ON SINGLE SOURCE SUPPLIERS. Many of the raw materials used in manufacturing certain of the Company's products are currently purchased from a single source, including certain monomers used to synthesize Intelimer polymers and substrate materials for the Company's Intellipac breathable membrane products. In addition, virtually all of the hybrid corn varieties sold by Fielder's Choice are purchased from a single source. Upon manufacturing scale-up and increases in hybrid corn sales, 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 nor has Fielder's Choice experienced difficulty in acquiring hybrid corn varieties, 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 or hybrid corn varieties at similar prices and terms, or at all, within a reasonable time. Any such interruption of supply could have a material adverse effect on the Company's ability to manufacture and distribute its products and, consequently, could materially and adversely affect the Company's business, operating results and financial condition.

CUSTOMER CONCENTRATION. For the three and nine months ended July 31, 1998, sales to the Company's top five customers accounted for approximately 44% and 24%, respectively, of the Company's product sales with the top customer accounting for 18% and 11%, respectively of the Company's product sales. The Company expects that for the foreseeable future a limited number of customers may continue to account for a substantial portion of its net revenues. The Company may experience changes in the composition of its customer base as Dock Resins and Fielder's Choice have experienced in the past. The Company 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, operating results and financial condition. In addition, since the products manufactured in the Linden, New Jersey 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 the Company's current customers will continue to place orders, 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 and the remediation of its Linden, New Jersey facility. Although the factual situations and the progress of each of these matters differ, the Company believes certain escrowed funds will prove adequate 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 believes its 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 and could have a material adverse effect on the Company's business, operating results and financial condition. There can be no assurance that changes in environmental regulations will not impose the need for additional capital equipment or other requirements.

LIMITED SALES AND MARKETING EXPERIENCE. 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, establishing sufficient marketing and sales capability will require significant

resources. 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. 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 and marketing efforts will be successful. To the extent that the Company has or will enter into distribution or other collaborative 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 sales and marketing efforts will be successful and any failure in such efforts could have a material adverse effect on the Company's business, operating results and financial condition.

DEPENDENCE ON COLLABORATIVE PARTNERS AND LICENSEES. The Company's strategy for the development, clinical and field testing, manufacture, 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 in connection with its Intelimer Polymer Systems; Fresh Express Farms, Apio, Inc., Roplast Industries, Inc. and PrintPack, Inc. in connection with its Intellipac breathable membrane products; and Nitta Corporation and Hitachi Chemical in connection with its adhesive 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. 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 other circumstances. In addition, there can be no assurance as to the amount of royalties, if any, on future sales of QuickCast and PORT products as the Company no longer has control over the sales of such products since the sale of the QuickCast and the license of the PORT product lines.

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. 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 and failure to do so could have a material adverse effect on the Company's business, operating results and financial condition.

INTERNATIONAL OPERATIONS AND SALES. In the third quarters of the fiscal years 1998 and 1997, approximately 7% and 4%, 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, although down from historical levels, 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 a material adverse effect on the Company's international business and its financial condition and results of operations. While the Company's foreign sales are currently priced in dollars, fluctuations in currency exchange rates, such as those recently experienced in many Asian countries which comprise a part of the territories of certain of the Company's collaborative partners, 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.

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, operating results and financial condition. 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 and non-medical product liability insurance in the minimum amount of $4.0 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 of new businesses or the sale or disposal of a part of the Company's businesses, 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 affect the market price of the Company's Common Stock.

IMPACT OF YEAR 2000. Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field. These date code fields will need to accept four digit entries to distinguish 21st century dates from 20th century dates. Therefore, any of such computer systems and software products that recognize a date code field of "00" as the year 1900 rather than the year 2000 could result in errors or system failures. As a result, many companies' software and computer systems may need to be upgraded or replaced in order to resolve the potential impact of this misinterpretation and the resulting errors or system failures and to make such systems, equipment and software Year 2000 compliant. The Company is in the process of performing its assessment of the impact of year 2000 on its operations. Management is in the process of formalizing its assessment procedures and developing a plan to address identified issues. The Company has evaluated its financial and accounting and inventory tracking systems and concluded that they are not materially affected by the year 2000. The extent, if any, of the impact of the year 2000 on other systems and equipment is unknown. A corporate-wide inventory of computer applications is being performed and is expected to be completed by the end of fiscal year 1998 after which the Company will attempt to remedy any issues. The Company has also begun communications with its facilities managers to determine the impact on building security and related equipment. Failure of the Company's internal computer systems or of such third-party equipment or software, or of systems maintained by the Company's suppliers, to operate properly with regard to the year 2000 and thereafter could require the Company to incur unanticipated expenses to remedy any problems, which could have a material adverse effect on the Company's business, operating results and financial condition. Furthermore, the purchasing patterns of customers or potential customers may be affected by the Year 2000 issues as companies expend significant resources to correct their current systems for Year 2000 compliance. These expenditures may result in reduced funds available to purchase the Company's products, which could have a material adverse effect on the Company's business, operating results and financial condition. In order to assure that this does not occur, the Company plans to devote all resources required to resolve any significant Year 2000 issues in a timely manner.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In connection with its initial public offering in 1996, the Company filed a Registration Statement on Form S-1, SEC File No. 33-80723 (the "Registration Statement"), which was declared effective by the Commission on February 12, 1996. Pursuant to the Registration Statement, the Company registered 3,220,000 shares of its Common Stock, $0.001 par value per share, for its own account. The offering commenced on February 15, 1996 and did not terminate until all of the registered shares had been sold. The aggregate-offering price of the registered shares was $38,640,000. The managing underwriters of the offering were Smith Barney and Lehman Brothers.

From February 1, 1996 to July 31, 1998, the Company incurred the following expenses in connection with the offering:

Underwriting discounts and commissions	$2,705,000
Other expenses	900,000
Total Expenses	$3,605,000

All of such expenses were direct or indirect payments to others.

The net offering proceeds to the Company after deducting the total expenses above were $35,035,000. From February 1, 1996 to July 31, 1998, the Company used such net offering proceeds, in direct or indirect payments to others, as follows:

Purchase and installment of machinery and equipment	$ 4,500,000
Repayment of indebtedness	$ 600,000
Acquisitions of other businesses	$17,700,000
Working capital	$ 7,500,000
Total	$30,300,000

Each of such amounts is a reasonable estimate of the application of the net offering proceeds. This use of proceeds does not represent a material change in the use of proceeds described in the prospectus of the Registration Statement.

ITEM 3. DEFAULTS IN SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

The Securities and Exchange Commission has recently amended Rule 14a-4(c) (1) promulgated under the Securities and Exchange Act of 1934, as amended. As amended, Rule 14a-4(c) (1) provides that if a proponent fails to notify the Company of a proposal at least 45 days prior to the month and day of mailing of the prior year's proxy statement, then management would be allowed to use its discretionary voting authority when the proposal is raised at the Annual Meeting, without any discussion of the matter in the proxy statement. The proxy statement for the Company's 1998 Annual Meeting of Shareholders was mailed to shareholders on February 27, 1998. Accordingly, if a proponent does not notify the Company on or before January 13, 1999 of a proposal for the 1999 Annual Meeting of Shareholders, management may use its discretionary voting authority to vote on such proposal, even if the matter is not discussed in the proxy statement for the 1999 Annual Meeting of Shareholders.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 Financial Data Schedule

(b) There were no reports on Form 8-K filed during the quarter ended July 31, 1998.

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: September 14, 1998

LANDEC CORPORATION

INDEX TO EXHIBITS

EXHIBIT NUMBER	EXHIBIT	SEQUENTIALLY NUMBERED PAGE
27.1	Financial Data Schedule	19f

5
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9-MOS
OCT-31-1998
NOV-01-1997
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