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 APRIL 30, 1999, 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 May 24, 1999, 13,266,012 shares of the Registrant's common stock were outstanding.

LANDEC CORPORATION

FORM 10-Q For the Quarter Ended April 30, 1999

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	April 30, 1999	October 31, 1998
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,539	$ 9,185
Short-term investments	--	992
Accounts receivable, net	2,579	2,808
Inventories	7,221	4,676
Prepaid expenses and other current assets	1,872	2,122
Total Current Assets	19,211	19,783
Property and equipment, net	9,376	8,280
Intangible assets, net	14,068	14,255
Other assets	38	38
	$ 42,693	$ 42,356
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,424	$ 1,399
Accrued compensation	1,010	1,017
Other accrued liabilities	1,315	942
Deferred revenue	125	2,499
Current portion of long term debt	115	156
Total Current Liabilities	3,989	6,013
Long term debt	2,662	2,655
Shareholders' Equity:		
Preferred stock	--	--
Common stock	77,021	76,821
Notes receivable from shareholders	--	(291)
Deferred compensation	(30)	(86)
Accumulated deficit	(40,949)	(42,756)
Total Shareholders' Equity	36,042	33,688
	$ 42,693	$ 42,356

SEE ACCOMPANYING NOTES.

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

	Three Months Ended April 30, 1999	Three Months Ended April 30, 1998	Six Months Ended April 30, 1999	Six Months Ended April 30, 1998
Revenues:				
Product sales	$ 18,959	$ 17,499	$ 23,305	$ 21,693
License fees	--	--	750	500
Research and development revenues	167	422	361	787
Total revenues	19,126	17,921	24,416	22,980
Operating costs and expenses:				
Cost of product sales	11,072	10,763	14,086	13,908
Research and development	1,470	1,425	2,926	2,635
Selling, general and administrative	3,179	3,085	5,723	5,545
Total operating costs and expenses	15,721	15,273	22,735	22,088
Operating profit	3,405	2,648	1,681	892
Interest income	113	212	254	464
Interest expense	(63)	(23)	(121)	(105)
Income before provision for income taxes	3,455	2,837	1,814	1,251
Provision for income taxes	(4)	(228)	(4)	(228)
Net income	$ 3,451	$ 2,609	$ 1,810	$ 1,023
Basic net income per share	$ 0.26	$ 0.20	$ 0.14	$ 0.08
Diluted net income per share	$ 0.22	$ 0.18	$ 0.12	$ 0.07
Shares used in computation of net income per share:				
Basic	13,252	12,728	13,231	12,717
Diluted	13,798	13,734	13,794	13,487

SEE ACCOMPANYING NOTES.

LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	Six Months Ended April 30, 1999	1998
Cash flows from operating activities:		
Net income	$ 1,810	$ 1,023
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,032	964
Amortization of deferred compensation	56	56
Changes in current assets and liabilities:		
Accounts receivable	229	(281)
Inventory	(2,545)	(580)
Prepaid expenses and other current assets	250	491
Accounts payable	(355)	202
Accrued compensation	(7)	122
Other accrued liabilities	373	(353)
Deferred revenue	(2,374)	(2,002)
Total adjustments	(3,341)	(1,381)
Net cash used in operating activities	(1,531)	(358)
Cash flows from investing activities:		
Decrease in other assets	--	58
Purchases of property and equipment	(1,561)	(1,214)
Purchases of available-for-sale securities	--	(2,079)
Sale of available-for-sale securities	--	2,856
Maturities of available-for-sale securities	989	6,734
Net cash provided by (used in) investing activities:	(572)	6,355
Cash flows from financing activities:		
Maturity of restricted investment	--	8,837
Proceeds from sale of common stock	200	108
Repayment of notes receivable from shareholders	291	8
Payment of payable related to acquisition	--	(9,189)
Proceed from issuance of long term debt	--	29
Payments of long term debt	(34)	(19)
Net cash provided by (used in) financing activities	457	(226)
Net increase (decrease) in cash and cash equivalents	(1,646)	5,771
Cash and cash equivalents at beginning of period	9,185	5,163
Cash and cash equivalents at end of period	$ 7,539	$ 10,934

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 April 30, 1999, 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, 1998.

The results of operations for the six month period ended April 30, 1999 are not necessarily indicative of the results that may be expected for the fiscal year ended October 31, 1999. For instance, due to the cyclical nature of the corn seed industry, a significant portion of Fielder's Choice Hybrids' ("Fielder's Choice") revenues and profits will be concentrated over a few months during the spring planting season (generally during the Company's second fiscal quarter).

2. INVENTORIES

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

	APRIL 30, 1999	OCTOBER 31, 1998
Raw materials	$ 1,057	$ 663
Work in process	290	228
Finished goods	5,874	3,785
	$ 7,221	$ 4,676

3. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in thousands except per share amounts):

	Three Months Ended April 30, 1999	Three Months Ended April 30, 1998	Six Months Ended April 30, 1999	Six Months Ended April 30, 1998
Numerator:				
Net income for basic earnings per share	$ 3,451	$ 2,609	$ 1,810	$ 1,023
Less: Minority interest in income of subsidiary	(408)	(134)	(103)	(40)
Net income for diluted earnings per share	$ 3,043	$ 2,475	$ 1,707	$ 983
Denominator:				
Weighted average shares for basic net income per share	13,252	12,728	13,231	12,717
Effect of dilutive securities:				
Stock Options	546	969	563	750
Warrants	--	37	--	20
Total dilutive common shares	546	1,006	563	770
Weighted average shares for diluted net income per share	13,798	13,734	13,794	13,487
Basic net income per share	$ 0.26	$ 0.20	$ 0.14	$ 0.08
Diluted net income per share	$ 0.22	$ 0.18	$ 0.12	$ 0.07

4. LICENSING OF PORT-TM- TECHNOLOGY

In December 1997, the Company licensed the rights to worldwide manufacturing, marketing and distribution of the PORT ophthalmic devices to Alcon Laboratories, Inc. ("Alcon") in exchange for an upfront license fee of $500,000 in cash, and future license revenue, research and development revenue and royalties on the sale of commercial products. During the first six months ended April 30, 1999, the Company received an additional cash payment of $1.0 million ($750,000 net of related costs) upon meeting a certain milestone and recognized $277,000 in research and development revenues associated with this arrangement.

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, 1998.

Except for the historical information contained herein, the matters discussed in this report are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. These forward-looking statements 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, 1998. The Company undertakes no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report.

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-Registered Trademark- 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 high performance materials market in June 1997.

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

The Company has been unprofitable during each fiscal year 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 April 30, 1999, the Company's accumulated deficit was $40.9 million.

RESULTS OF OPERATIONS

Total revenues were $19.1 million for the second quarter of fiscal year 1999 compared to $17.9 million for the second quarter of fiscal year 1998. Revenues from product sales increased to $19.0 million in the second quarter of fiscal year 1999 from $17.5 million in the second quarter of fiscal year 1998 due principally to increased product sales from Fielder's Choice and the Intellipac breathable membrane products which increased from $12.9 million and $422,000, respectively, in the second quarter of fiscal year 1998 to $14.7 million and $948,000, respectively, in the second quarter of fiscal year 1999. The increase in Fielder's Choice revenue was primarily due to increased per unit sales prices, and the increase in Intellipac breathable membranes revenues was primarily due to the introduction of various new products and increased volumes for existing products. The increases were partially offset by a decrease in Dock Resins product sales from $4.2 million in the second quarter of fiscal year 1998 to $3.2 million in the second quarter of fiscal year 1999. This decrease is a result of the overall weakness in the chemical industry. Revenues from research and development funding were $167,000 for the second quarter of fiscal year 1999 compared to $422,000 for the second quarter of fiscal year 1998. The decrease in research and development revenues was primarily due to the completion of research and development arrangements with Hitachi Chemical in July 1998 and Nitta Corporation in December 1998. For the first six months of fiscal year 1999, total revenues were $24.4 million compared to $23.0 million during the same period in 1998. Revenue from product sales for the first six months of fiscal year 1999 increased to $23.3 million from $21.7 million during the same period in 1998 due principally to increased product sales from Fielder's Choice and Intellipac breathable membrane products which increased from $12.9 million and $1.2 million, respectively, in the first six months of fiscal year 1998 to $14.7 million and $2.0 million, respectively, during the same period in fiscal year 1999. The increase in Fielder's Choice revenue was primarily due to increased per unit sales prices, and the increase in Intellipac breathable membrane revenues was due primarily to the introduction of various new products and increased volumes for existing products. These increases were partially offset by a decrease in Dock Resins' product sales from $7.6 million during the first six months of fiscal year 1998 to $6.5 million during the same period in fiscal year 1999. This decrease is a result of the overall weakness in the chemical industry during the Company's second fiscal quarter. Revenues from license fees were $750,000 for the first six months of fiscal year 1999 compared to $500,000 during the same period in 1998. The increase in license fees was due to a payment received from Alcon upon meeting a certain milestone 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 six months of fiscal year 1999 decreased to $361,000 from $787,000 during the same period in 1998. The decrease in research and development revenues was primarily due to the completion of research and development arrangements with Hitachi Chemical and Nitta Corporation.

Cost of product sales consists of material, labor and overhead. Cost of product sales was $11.1 million for the second quarter of fiscal year 1999 compared to $10.8 million for the second quarter of fiscal year 1998. Cost of product sales as a percentage of product sales decreased to 58% in the second quarter of fiscal year 1999 from 62% in the second quarter of fiscal year 1998. Cost of product sales for the first six months of fiscal year 1999 was $14.1 million compared to $13.9 million during the same period in 1998. Cost of product sales as a percentage of product sales decreased to 60% for the first six months of fiscal year 1999 from 64% during the same period in 1998. These decreases in the cost of product sales as a percentage of product sales were primarily the result of higher margins on the sales of Fielder's Choice and Intellipac breathable membrane products. The Company anticipates that gross margins would continue to improve if sales volume increases in the Intellipac breathable membrane products. However, longer-term improvement is unpredictable due to the early stage of commercialization of several of the Company's products.

Research and development expenses were $1.5 million for the second quarter of fiscal year 1999 compared to $1.4 million for the second quarter of fiscal year 1998, an increase of 3%. For the first six months of fiscal year 1999 research and development expenses were $2.9 million compared to $2.6 million during the same period in fiscal year 1998, an increase of 11%. The Company's research and development expenses consist primarily of expenses involved in product development, process scale-up, and patent activities related to the Company's side chain crystallizable polymer technology and research and development expenses related to Dock Resins' products. The increase in research and development expenses during the three and six month periods ended April 30, 1999 compared to the same periods of fiscal year 1998 was primarily due to scale-up costs of products associated with Intelimer Polymer Systems and development costs in the Intellicoat-Registered Trademark- seed coatings and Intellipac breathable membrane product areas. In future periods, the Company expects that spending for research and development will continue to increase in absolute dollars, although it may vary as a percentage of total revenues.

Selling, general and administrative expenses were $3.2 million for the second quarter of fiscal year 1999 compared to $3.1 million for the second quarter of fiscal year 1998, an increase of 3%. For the first six months of fiscal year 1999 selling, general and administrative expenses were $5.7 million compared to $5.5 million during the same period in 1998, an increase of 3%. 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. Specifically, sales and marketing expenses increased to $1.9 million for the second quarter of fiscal year 1999 from $1.8 million for the second quarter of fiscal year 1998. For the first six months of fiscal year 1999 sales and marketing expenses increased to $3.6 million compared to $3.0 million during the same period in 1998. The increase in sales and marketing expenses for the three and six month periods ended April 30, 1999 compared to the same periods of fiscal year 1998 was principally due to increased marketing efforts at Fielder's Choice. The Company expects that total selling, general and administrative spending for existing and newly acquired products will continue to increase in absolute dollars in future periods, although it may vary as a percentage of total revenues.

Net interest income for the three and six month periods ended April 30, 1999 were $50,000 and $133,000, respectively, compared to $189,000 and $359,000 for the same periods of fiscal year 1998. These decreases in net interest income were due principally to less cash being available for investing.

LIQUIDITY AND CAPITAL RESOURCES

As of April 30, 1999 the Company had cash, cash equivalents and short-term investments of $7.5 million, a net decrease of $2.7 million from $10.2 million as of October 31, 1998. This decrease was primarily due to cash used in operations of $1.5 million and the purchase of $1.6 million of property, plant and equipment partially offset by cash provided by financing activities of $457,000 from the sale of common stock and repayment of notes receivable from shareholders. The cash used in operations was primarily comprised of the increase in corn seed inventory at Fielder's Choice partially offset by positive cash flow generated by other operating activities.

During the first six months of fiscal year 1999, the Company incurred building improvement and equipment upgrade expenditures at Dock Resins to expand capacity, and purchased quality assurance equipment to support the development of Intellipac and Intellicoat products. These expenditures represented the majority of the $1.6 million of property and equipment purchased during the first six months of fiscal year 1999.

The Company believes that existing cash and cash equivalents 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 establish and maintain new collaborative and licensing arrangements; the continued assimilation and integration of Dock Resins and Fielder's Choice into Landec and Intellicoat, respectively; the decision to pursue additional acquisition opportunities; 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. As a result of the seasonal nature of Fielder's Choice's business, which results in most of its revenues and profits being concentrated during the Company's second fiscal quarter, the Company realized net income of $1.8 million for the first six months of fiscal year 1999. However, since its inception the Company has incurred net losses in each fiscal year, and the Company's accumulated deficit as of April 30, 1999 totaled $40.9 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 seasonal 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). Further, the Company's principal customers in its Food Technology and Packaging segment are heavily affected by seasonal and weather factors, which could affect their purchases of the Company's products. 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 new 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 new 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 are 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 new products will develop or that the Company's new products and technology will be accepted and adopted. The failure of the Company's new 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. 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 six months ended April 30, 1999, sales to the Company's top five customers accounted for approximately 12% and 22%, respectively, of the Company's product sales with the top customer accounting for 4% and 7%, 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, in January 1996, the Company 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. No additional correspondence, other than the initial letter, has been received. 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.

ENVIRONMENTAL REGULATIONS. Federal, state and local regulations impose various environmental controls on the use, storage, discharge or disposal of toxic, volatile or otherwise hazardous chemicals and gases used in certain manufacturing processes, including those utilized by Dock Resins. As a result of historic off-site disposal practices, Dock Resins was recently involved in two actions seeking to compel the generators of hazardous waste to remediate hazardous waste sites. Dock Resins has been informed by its counsel that it is a DE MINIMIS generator to these sites, and that its financial exposure in these sites is not material to the Company's financial position. These matters have been settled on terms consistent with the above. In addition, the New Jersey Industrial Site Recovery Act ("ISRA") requires an investigation and remediation of any industrial establishment, like Dock Resins, which changes ownership. This statute was activated by the Company's acquisition of Dock Resins. Dock Resins has completed its investigation of the site, delineated the limited areas of concern on the site, and completed the bulk of the active remediation required under the statute. The costs associated with this effort are being borne by the former owner of Dock Resins, and counsel has advised Dock Resins and the Company that funds of the former owner required by ISRA to be set aside for this effort are sufficient to guarantee the successful completion of remedial activities at the site. 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 and Apio, Inc. in connection with its Intellipac breathable membrane products; Bissell in connection with the QuickCast splints and casts; Alcon in connection with the PORT ophthalmic devices; 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, market or pay any royalty fees related to 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, manufacturing, 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.

GOVERNMENT REGULATION. The Company's products and operations are subject to governmental 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.

INTERNATIONAL OPERATIONS AND SALES. In the second quarter of fiscal years 1999 and 1998, approximately 1% and 2%, 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 on a percentage basis from historical levels, will continue to be an important component of its total revenues. The Company has recently entered into agreements with European distributors to sell certain products in the Industrial High Performance Materials market. 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 with limits in the amount of $4.0 million per occurrence and $5.0 million in the annual aggregate. 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. The Year 2000 issue concerns the potential inability of computer applications, other information technology systems, and certain software-based "embedded" control systems to recognize and process properly date-sensitive information as the Year 2000 approaches and beyond. The Company could suffer material adverse impacts on its operations and financial results if the applications and systems used by the Company, or by third parties with whom the Company does business, do not accurately or adequately process or manage dates or other information as a result of the Year 2000 issue. The Company has completed a review of its financial accounting and inventory tracking systems and concluded that they are not materially affected by the Year 2000 issue.

The Company also uses a variety of other software applications, business information systems, accounting subsystems, process control systems and related software, communication devices, and networking and other operating systems. The Company has completed its inventory of all such systems and has begun testing, upgrading, replacing, or otherwise modifying these systems to adequately address the Year 2000 issue. The Company believes it will be able to timely modify or replace its affected systems to prevent any material detrimental effects on operations and financial results. The Company anticipates this work will continue, with appropriate testing, remediation and/or replacement taking place during the second half of 1999. Possible risks of this process include, but are not limited to, the ability of the Company's personnel and outside vendors to adequately and timely identify and resolve all critical Year 2000 issues. The Company can give no assurance that all critical Year 2000 issues will be resolved in a timely manner or that potentially unresolved issues would not have a material adverse impact on the results of operations.

The Company has certain key relationships with customers, vendors and outside service providers. Failure by the Company's key customers, vendors and outside service providers to adequately address the Year 2000 issue could have a material adverse impact on the Company's operations and financial results. The Company is currently assessing the Year 2000 readiness of these key customers and suppliers and, at this time, cannot determine what the impact of this assessment will be on the Company. The Company is primarily relying upon the voluntary disclosures from third parties for this review of their Year 2000 readiness. This assessment includes, but is not limited to, soliciting responses from each of these parties concerning their Year 2000 readiness and reviewing public documents filed by many of these parties. Management expects to complete the assessment of these key suppliers during the second half of 1999.

Since the Company anticipates that its affected systems will be remediated or replaced to timely address the Year 2000 issue and is currently focusing its resources in those areas, the Company has not yet developed any other contingency plans regarding the Year 2000 issue for its internal systems. However, the Company intends to develop contingency plans if at a later date management determines that any of its systems will not be Year 2000 compliant and that such noncompliance would be expected to have a material adverse impact on the Company's operations or financial results. Many of the identified risks from key customers, vendors and outside service providers are both general and speculative in nature, such as possible power or telecommunication failures, breakdowns in transportation systems, inability to process financial transactions, and similar events affecting general business services. The Company has not developed any contingency plans for these general risks, is not currently able to ascertain the likelihood that any of these risks will actually occur, and has not otherwise analyzed or identified possible "worst case" scenarios relating to Year 2000 issues. Once the Company has completed its assessment of Year 2000 readiness of key customers, vendors and outside service providers, management intends to develop contingency plans to mitigate material known detrimental effects that may be caused by their Year 2000 noncompliance. However, it is unlikely that any contingency plan would mitigate the adverse impact to the financial condition or operations of the Company of any catastrophic event due to the Year 2000 issue that leads to a prolonged disruption of essential services.

Management believes that total Year 2000 costs will not exceed $100,000, most of which will be incurred in fiscal year 1999. The costs associated with this effort are incremental to the Company. As of April 30, 1999, the Company has not incurred any costs related to the Year 2000 issue. In addition to the costs mentioned above, the Company's capital spending for upgrading certain non-information systems to enhance the capabilities of those systems will be accelerated, in part, due to the Year 2000 issue. The total estimated increase in capital spending for these systems is anticipated to be under $200,000. As of April 30, 1999 the Company has incurred $55,000 of capital expenditures associated with replacing non-compliant equipment. The Company's current estimates of the amount of time and costs necessary to remediate and test its computer systems are based on the facts and circumstances existing at this time. The estimates were made using assumptions of future events including the continued availability of certain resources, Year 2000 readiness plans, implementation success by key third party vendors, and other factors. New developments may occur that could increase the Company's estimates of the amount of time and costs necessary to modify and test its various information and non-information systems. These potential developments include but are not limited to the availability and increased cost of personnel trained in this area of expertise, the ability to locate and correct all relevant computer codes and equipment, and any unanticipated Year 2000 problems from key customers, vendors, and outside service providers.

INTRODUCTION OF THE EURO. On January 1, 1999, certain member states of the European Economic Community fixed their respective currencies to a new currency, commonly known as the "Euro". During the three years beginning on January 1, 1999, business in these countries will be conducted both in the existing national currency, as well as the Euro. Companies operating in or conducting business in these countries will need to ensure that their financial and other software systems are capable of processing transactions and properly handling the existing currencies and the Euro. Based on the current level of direct European business conducted by the Company, and also because the Company expects that any transactions in Europe in the near future will be priced in U.S. dollars, the Company does not expect that introduction and use of the Euro will materially affect the Company's business. The Company will continue to evaluate the impact over time of the introduction of the Euro. However, if the Company encounters unexpected opportunities or difficulties in Europe, the Company's business could be adversely affected, including the inability to bill customers and to pay suppliers for transactions denominated in the Euro and the inability to properly record transactions denominated in the Euro in the Company's financial statements.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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 April 30, 1999, 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 April 30, 1999, the Company used such net offering proceeds, in direct or indirect payments to others, as follows:

Purchase and installment of machinery and equipment	$ 7,235,000
Repayment of indebtedness	700,000
Acquisitions of other businesses	17,700,000
Working capital	9,400,000
Total	$35,035,000

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 UPON SENIOR SECURITIES

None.

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

At the Company's Annual Meeting of Shareholders held on April 14, 1999 the following proposals were adopted by the margins indicated:

		Number of Shares	
		Voted For	Withheld
1.	Three Class I directors were elected by the margins indicated to serve until the next odd numbered year Annual Meeting (2001) during which their successors will be elected and qualified:		
	Ray F. Stewart	10,806,872	20,687
	Kirby L. Cramer	10,814,872	12,687
	Richard Dulude	10,814,872	12,687

The four Class II directors were not up for election at the Annual Meeting. These three Class I 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 (2000), when their successors will be elected and qualified.

		Voted For	Voted Against	Abstain	Broker Non-Votes
2.	To approve an amendment to the Company's 1995 Stock Purchase Plan to provide for an annual increase, commencing November 1, 1999, in the number of shares reserved for issuance thereunder equal to the lessor of (i) 225,000 shares, (ii) 1.5% of the outstanding shares of Common Stock of the Company or (iii) a number of shares determined by the Board of Directors.	7,956,998	490,819	17,702	2,260,48
3.	To ratify the appointment of Ernst & Young LLP as independent public accountants of the Company for the fiscal year ending October 31, 1999.	10,811,872	10,526	5,161	0

ITEM 5. OTHER INFORMATION

On February 11, 1999, the Board of Directors amended the 1996 Non-Executive Stock Option Plan to increase the number of shares reserved thereunder by 750,000 shares.

On April 14, 1999, the Shareholders voted to amend the 1995 Employee Stock Purchase Plan to provide for an annual increase, commencing on November 1, 1999, in the number of shares reserved for issuance thereunder equal to the lesser of: (i) 225,000 shares, (ii) 1.5% of the outstanding shares of Common Stock of the Company or (iii) a number of shares determined by the Board of Directors.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

10.3+	1995 Employee Stock Purchase Plan as amended
27.1+	Financial Data Schedule

(b) There were no reports on Form 8-K filed during the quarter ended April 30, 1999.

- ---------------------
+ filed herewith

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 11, 1999

LANDEC CORPORATION

INDEX TO EXHIBITS

EXHIBIT 10.3

LANDEC CORPORATION

1995 EMPLOYEE STOCK PURCHASE PLAN

(AS AMENDED IN APRIL 1999)

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

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

2. DEFINITIONS.

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

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

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

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

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

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

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

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

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

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

(k) "PURCHASE DATE" shall mean the last day of each Offering Period of the Plan.

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

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

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

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

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

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

(q) "SUBSIDIARY" shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

3. ELIGIBILITY.

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

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary of the Company, or (ii) if such option would permit his or her rights to purchase stock under all employee stock purchase plans (described in Section 423 of the Code) of the Company and its Subsidiaries to accrue at a rate which exceeds Twenty-Five Thousand Dollars ($25,000) of fair market value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. OFFERING PERIODS AND PURCHASE PERIODS.

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

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

5. PARTICIPATION.

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

(b) Payroll deductions shall commence on the first payroll following the Offering Date and shall end on the last payroll paid on or prior to the last Purchase Date of the offering to which the subscription agreement is applicable, unless sooner terminated by the participant as provided in Section 10.

6. METHOD OF PAYMENT OF CONTRIBUTIONS.

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

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

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

7. GRANT OF OPTION.

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

Company's Common Stock on the Offering Date, and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12. The fair market value of a share of the Company's Common Stock shall be determined as provided in Section 7(b).

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

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

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

10. VOLUNTARY WITHDRAWAL; TERMINATION OF EMPLOYMENT.

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

(b) Upon termination of the participant's Continuous Status as an Employee prior to a Purchase Date of an Offering Period for any reason, including retirement or death, the Contributions credited to his or her account will be returned to him or her or, in the case of his or her death, to the person or persons entitled thereto under Section 15, and his or her option will be automatically terminated.

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

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

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

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

13. STOCK.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be 300,000 shares, plus an annual increase to be added on the first day of each fiscal year (commencing on November 1, 1999), equal to the lesser of: (i) 225,000 shares, (ii) 1.5% of the outstanding shares of the Company on such date or (iii) a number of shares determined by the Board of Directors. If the total number of shares which would otherwise be subject to options granted pursuant to Section 7(a) on the Offering Date of an Offering Period exceeds the number of shares then available under the Plan (after deduction of all shares for which options have been exercised or are then outstanding), the Company shall make a pro rata allocation of the shares remaining available for option grant in as uniform a manner as shall be practicable and as it shall determine to be equitable. In such event, the Company shall give written notice of such reduction of the number of shares subject to the option to each Employee affected thereby and shall similarly reduce the rate of Contributions, if necessary.

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

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

14. ADMINISTRATION. The Board, or a committee named by the Board, shall supervise and administer the Plan and shall have full power to adopt, amend and rescind any rules deemed desirable and appropriate for the administration of the Plan and not inconsistent with the Plan, to construe and interpret the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. The composition of the committee shall be in accordance with the requirements to obtain or retain any available exemption from the operation of Section 16(b) of the Exchange Act pursuant to Rule 16b-3 promulgated thereunder.

15. DESIGNATION OF BENEFICIARY.

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

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

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

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

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

19. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION; CORPORATE TRANSACTIONS.

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

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

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

20. AMENDMENT OR TERMINATION.

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

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

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

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

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

23. TERM OF PLAN; EFFECTIVE DATE. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company. It shall continue in effect for a term of twenty (20) years unless sooner terminated under Section 20.

23. ADDITIONAL RESTRICTIONS OF RULE 16b-3. The terms and conditions of options granted hereunder to, and the purchase of shares by, persons subject to Section 16 of the Exchange Act shall comply with the applicable

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

5
1,000
6-MOS
OCT-31-1999
NOV-01-1998
APR-30-1999
7,539
0
2,627
(48)
7,221
19,211
13,219
(3,843)
42,693
3,989
0
0
0
77,021
(40,979)
42,693
23,305
24,416
14,086
17,012
0
0
121
1,814
4
1,810
0
0
0
1,810
0.14
0.12