LANDEC

Lifecore BIOMEDICAL

2022 Annual Report

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A Letter from Our CEO

Dear Shareholders,

I am pleased to communicate with you as the Company's new Chief Executive Officer and Board Director following my appointment in early August. Fiscal 2022 was an important inflection point in Landec's evolution to a life science-based organization that is now fully focused on Lifecore Biomedical, our unique and differentiated contract development and manufacturing organization (CDMO) asset. Guided by Landec's value creation framework – Project SWIFT – we successfully monetized several of our non-core Curation Food assets and paid down $112 million in debt in the past year. While we work to conclude this activity in Fiscal 2023, our Board of Directors recently announced the transition of our corporate brand from Landec to Lifecore Biomedical. This transition will take place in the coming months and will include a ticker symbol change to LFCR for our shares listed on Nasdaq.

Lifecore has delivered consistent, profitable growth for many years. Over the past decade, we've grown our revenue by a compound annual rate of nearly 15%. In Fiscal 2022, we eclipsed $100 million of revenue – a significant milestone that demonstrates the scale that we've brought to the business. Looking ahead, we remain well-positioned as a fully integrated CDMO with differentiated capabilities for highly regulated products. More than 40 years of experience manufacturing pharmaceutical-grade hyaluronic acid form the foundation of our portfolio of services for the development, fill and finish of sterile, injectable products. Bolstered by an industry trend toward outsourcing new drug development, our strong and growing development pipeline plus further expansion of our services will allow Lifecore Biomedical to fully realize our position as a market leader.

We will continue to make the necessary investments in our business to support the expansion of our operations to take full advantage of the opportunity to address growing demands from the global pharmaceutical market. We are proud of all we have accomplished during this transition, and I would like to recognize our entire team for their hard work as they set the organization on a path for continued success.

James G. Hall

Chief Executive Officer
President, Lifecore Biomedical

FISCAL YEAR 22 RESULTS

$112m
LANDEC DEBT PAYDOWN (JUNE 1, 2021 THROUGH JUNE 2, 2022)

Lifecore™ BIOMEDICAL

$109.3m
REVENUE
CDMO GROWTH: 15%

40%
GROSS MARGIN

$28.5m
EBITDA
EBITDA GROWTH: 16%
EBITDA MARGIN: 26.1%

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2022
Form 10-K

LANDEC

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

FORM 10-K

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

For the Fiscal Year Ended May 29, 2022, 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: **000-27446**

LANDEC CORPORATION

(Exact name of registrant as specified in its charter)

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

2811 Airpark Drive	
Santa Maria, California	**93455**
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.001 per share	LNDC	The NASDAQ Global Select Stock Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☐	Accelerated Filer	☒
Non Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $225,356,000 as of November 29, 2020, the last business day of the registrant’s most recently completed second fiscal quarter, based upon the closing sales price on the NASDAQ Global Select Market reported for such date. Shares of Common Stock held by each officer and director and by each person who owns 10% or more of the outstanding Common Stock have been excluded from such calculation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of September 13, 2022, there were 29,595,554 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement relating to its 2022 Annual Meeting of Stockholders (the “Proxy Statement”) to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, are incorporated herein by reference where indicated. Except with respect to information specifically incorporated by reference in this Annual Report on Form 10-K, the Proxy Statement is not deemed to be filed as part hereof.

LANDEC CORPORATION
ANNUAL REPORT ON FORM 10-K

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Explanatory Note

Restatement Background

In this Annual Report on Form 10-K for the year ended May 29, 2022, Landec Corporation (the "Company") is restating (the "Restatement") its previously issued (i) unaudited consolidated balance sheets as of February 27, 2022 and May 30, 2021, (ii) unaudited consolidated statement of comprehensive (loss) income for the three and nine months ended February 27, 2022, (iii) unaudited consolidated statement of cash flows for the nine months ended February 27, 2022, (iv) unaudited consolidated statement of changes in stockholders' equity, and unaudited notes related thereto, as previously reported in our Quarterly Report on Form 10-Q for the third quarter period ended February 27, 2022 (the "Prior Financial Statements").

The Restatement results from corrections by the Company primarily related to:

(i) the classification of certain expenses and the recording of accruals related to the Company's recent disposition activities and the Company's corporate transition of Landec Corporation to Lifecore Biomedical, which were previously classified as restructuring expenses from continuing operations in our Prior Financial Statements, but which the Company intends to correct to classify as selling, general and administrative expenses, and cost of goods sold within continuing operations;

(ii) the treatment of the fees received and costs incurred by the Company pursuant to the transition services agreement related to the sale of the Curation Foods' Eat Smart business (the "TSA"), for which the Company had previously recognized the net of the TSA fees received and costs incurred as loss on sale of Eat Smart within discontinued operations, but for which the Company intends to correct to classify the TSA fees received by the Company within transition services income and the TSA costs incurred by the Company as selling, general and administrative expenses within continuing operations; and

(iii) the classification of certain costs and expenses related to the Company's recent disposition activities and the Company's corporate transition of Landec Corporation to Lifecore Biomedical, which were previously classified as loss on sale of Eat Smart within discontinued operations, but which the Company intends to correct to classify as selling, general and administrative expenses within continuing operations.

The Company has assessed the materiality of these corrections in accordance with the U.S. Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 99, Materiality and SAB No. 108, Quantifying Financial Statement Misstatements, and has concluded that the Prior Financial Statements should be restated. The corrections regarding the presentation of Prior Financial Statements are reflected in Note 1 Organization, Basis of Presentation, and Summary of Significant Accounting Policies, in Part IV, Item 15 of this Annual Report on Form 10-K.

Restatement Overview

In connection with the restatement of the Prior Financial Statements, the Company, in this Annual Report on Form 10-K:

1. restated the Prior Financial Statements, in Note 1 Organization, Basis of Presentation, and Summary of Significant Accounting Policies, in Part IV, Item 15 of this Annual Report on Form 10-K;

2. updated the risk factor relating to its material weakness in its internal controls over financial reporting in Item 1A. of Annual Report on Form 10-K; and

3. updated its disclosures regarding its controls and procedures in Part II, Item 9A. of Annual Report on Form 10-K.

The financial information that has been previously filed or otherwise reported for the Prior Financial Statements is superseded by the information in this Annual Report on Form 10-K. See Note 1 Organization, Basis of Presentation, and Summary of Significant Accounting Policies, in Part IV, Item 15 of this Annual Report on Form 10-K for additional information on the restatement and the related financial statement impact.

Internal Controls Considerations

In connection with the Restatement described above, management has determined that there was a material weakness in the Company's design and operation of effective internal control over completeness and accuracy for non-standard transactions, which included discontinued operations and restructuring costs as of May 29, 2022. For a discussion of management's considerations of the Company's disclosures controls and procedures, internal controls over financial reporting, and material weakness identified, refer to "Controls and Procedures" in Part II, Item 9A of this Annual Report on Form 10-K.

Cautionary Note About Forward-Looking Statements

This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements regarding future events and our future results that are subject to the safe harbor created under the Private Securities Litigation Reform Act of 1995 and other safe harbors under the Securities Act of 1933 and the Securities Exchange Act of 1934. Words such as "anticipate", "estimate", "expect", "project", "plan", "intend", "believe", "may", "might", "will", "should", "can have", "likely" and similar expressions are used to identify forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected. Potential risks and uncertainties include, without limitation, the timing and expenses associated with operations, the ability to achieve acceptance of our new products in the market place, weather conditions that can affect the supply and price of produce, government regulations affecting our business, uncertainties related to COVID-19 and the impact of our responses to it, the timing of regulatory approvals, the ability to successfully integrate Yucatan Foods into the Curation Foods business, the mix between domestic and international sales, and those other risks mentioned in Item 1A. "Risk Factors" of this report.

We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Accordingly, our actual results could differ materially from those projected in the forward-looking statements for many reasons, including the risk factors listed in Item 1A. "Risk Factors" of this report.

All forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements as well as others made in this report and hereafter in our other SEC filings and public communications.

You should evaluate all forward-looking statements made by us in the context of all risks and uncertainties described with respect to our business. We caution you that the risks and uncertainties identified by us may not be all of the factors that are important to you. Furthermore, the forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

PART I

Item 1. *Business*

Corporate Overview

Landec Corporation and its subsidiaries ("Landec," the "Company", "we" or "us") design, develop, manufacture, and sell differentiated products for biomaterials and food markets, and license technology applications to partners.

On August 10, 2022, Landec formally announced that we will become a CDMO-focused life sciences company with a planned corporate rebranding including renaming the Company to Lifecore Biomedical and exploring potential sales opportunities of the Company's remaining Curation Foods assets.

Landec's biomedical company, Lifecore Biomedical, Inc. ("Lifecore"), is a fully integrated contract development and manufacturing organization ("CDMO") that offers highly differentiated capabilities in the development, fill and finish of sterile, injectable pharmaceutical products in syringes and vials. As a leading manufacturer of premium, injectable grade Hyaluronic Acid, Lifecore brings 37 years of expertise as a partner for global and emerging biopharmaceutical and biotechnology companies across multiple therapeutic categories to bring their innovations to market.

Landec's natural food company, Curation Foods, Inc. ("Curation Foods") is focused on innovating and distributing plant-based foods with 100% clean ingredients to retail, club and foodservice channels throughout North America.

Landec was incorporated in California on October 31, 1986 and reincorporated as a Delaware corporation on November 6, 2008. Landec's common stock is listed on the NASDAQ Global Select Market under the symbol "LNDC". The Company's principal executive offices are located at 2811 Airpark Drive Santa Maria, California 93455, and the telephone number is (650) 306-1650.

Reportable Segments

Landec has three reportable business segments – Lifecore, Curation Foods, and Other, which are described below.

Lifecore Biomedical

Lifecore, located in Chaska, Minnesota, is a fully integrated CDMO that offers highly differentiated capabilities in the development, fill and finish of sterile, injectable pharmaceutical products in syringes and vials. It is involved in the manufacture of pharmaceutical-grade sodium hyaluronate ("HA") in bulk form as well as formulated and filled syringes and vials for injectable products used in treating a broad spectrum of medical conditions and procedures. Lifecore uses its fermentation process and aseptic formulation and filling expertise to be a leader in the development of HA-based products for multiple applications and to take advantage of non-HA device and drug opportunities which leverage its expertise in manufacturing and aseptic syringe filling capabilities.

Lifecore CDMO provides product development services to its partners for HA-based, as well as non-HA based, aseptically formulated and filled products. These services include activities such as technology development, material component changes, analytical method development, formulation development, pilot studies, stability studies, process validation and production of materials for clinical studies.

Built over many years of experience, Lifecore separates itself from its competition based on its five areas of expertise, including but not limited to Lifecore's ability to:

Establish strategic relationships with market leaders:
Lifecore continues to develop applications for products with partners who have strong marketing, sales, and distribution capabilities to end-user markets. Through its strong reputation and history of providing pharmaceutical grade HA and products, Lifecore has established long-term relationships with global and emerging biopharmaceutical and biotechnology companies across multiple therapeutic categories, and leverages those partnerships to attract new relationships in other medical markets.

***Expand medical applications for HA*:**
Due to the growing knowledge of the unique characteristics of HA and Lifecore's unique strength and history as a trusted manufacturer of pharmaceutical injectable grade HA products, Lifecore continues to identify and pursue opportunities for the use of HA in other medical applications, such as wound care, aesthetic surgery, drug delivery, next generation orthopedics and device coatings, and through sales to academic and corporate research customers. Further applications may involve expanding process development activity and/or additional licensing of technology.

***Utilize manufacturing infrastructure to meet customer demand*:**
Lifecore has made strategic capital investments in its CDMO business focusing on extending its aseptic filling capacity and capabilities to meet increasing partner demand and to attract new contract filling opportunities outside of HA markets. Lifecore is using its manufacturing capabilities to provide contract manufacturing and development services to its partners in the area of sterile pre-filled syringes and vials, as well as fermentation and purification requirements.

Maintain flexibility in product development and supply relationships:
Lifecore's vertically integrated development and manufacturing capabilities allow it to establish a variety of contractual relationships with global corporate partners. Lifecore's role in these relationships extends from supplying HA raw materials to providing technology transfer and development services to manufacturing aseptically filled, finished sterile products, and assuming full supply chain responsibilities.

Deliver consistent quality:
Lifecore has built a world class quality and regulatory system that is demonstrated in its results, processes and customer relationships. With over 35 years of a superior track record with global regulatory bodies (FDA, EMA, ANVISA, etc.), Lifecore is the partner of choice for companies looking for proven experience in delivering QbD, cGMP compliance, and manufacturing excellence with pharmaceutical elegance and quality. Lifecore's world class quality and regulatory system and excellent track record with the global regulatory bodies ensure partners that they will safely bring innovative therapies to market.

Curation Foods

Curation Foods Overview

Based in Santa Maria, California, Curation Foods' primary business is the processing, marketing and selling of guacamole, avocado products, and olive oils and wine vinegars. Curation Foods serves as the corporate umbrella for its portfolio of three natural food brands, *O* Olive Oil & Vinegar® products, and Yucatan® and Cabo Fresh® authentic guacamole and avocado products. We believe that the major distinguishing characteristics of Curation Foods that provide competitive advantage are insight driven product innovation, diversified fresh food supply chain, refrigerated supply chain and customer reach. We believe that Curation Foods is well positioned as a single source of a broad range of its products.

On December 13, 2021 (the "Closing Date"), Landec and Curation Foods (together, the "Sellers"), and Taylor Farms Retail, Inc. ("Taylor Farms" and together with the Sellers, the "Parties") completed the sale (the "Eat Smart Disposition") of Curation Foods' Eat Smart business, including its salad and cut vegetable businesses (the "Business"), pursuant to the terms of an asset purchase agreement executed by the Parties on December 13, 2021 (the "Asset Purchase Agreement"). Pursuant to the Asset Purchase Agreement, Taylor Farms acquired the Business for a purchase price of $73.5 million in cash, subject to post-closing adjustments based upon net working capital at the Closing Date. As part of the Eat Smart Disposition, Taylor Farms acquired, among other assets related to the Business, the manufacturing facility and warehouses (and corresponding equipment) located in Bowling Green, Ohio and Guadalupe, California, as well as inventory, accounts receivable and accounts payable, intellectual property and information related to the Business, and assumed certain liabilities and executory obligations under the Company's and Curation Foods' outstanding contracts related to the Business, in each case, subject to the terms of the Asset Purchase Agreement.

Following the Eat Smart Disposition, and BreatheWay sale subsequent to fiscal year end, Curation Foods retains its *O* Olive and Yucatan businesses, and the Company retains its Lifecore business.

As a result of the Eat Smart Disposition, the Company met the requirements of ASC 205-20, to report the results of the Eat Smart business as a discontinued operation. Accordingly, the operating results for the Eat Smart business have been reclassified as a discontinued operation within these consolidated financial statements.

Curation Foods Brands

O Olive Oil & Vinegar ("*O*")*:* The Company acquired *O* on March 1, 2017. *O*, founded in 1995, is based in Petaluma, California, and is the premier producer of California specialty olive oils and wine vinegars. Its products are sold in natural food, conventional grocery and mass retail stores, primarily in the United States and Canada.

Yucatan & Cabo Fresh Avocado Products: The Company acquired Yucatan Foods on December 1, 2018. Yucatan Foods was founded in 1991. As part of the acquisition of Yucatan Foods, Curation Foods acquired the newly built production facility in Guanajuato, Mexico. The Yucatan Foods business added a double-digit growth platform, a lower-cost infrastructure in Mexico, and higher margin product offerings that generally exhibit less sourcing volatility. The Company manufactures and sells Yucatan and Cabo Fresh guacamole and avocado food products primarily to the U.S. grocery channel, but also to the U.S. mass retail, Canadian grocery retail and foodservice channels.

BreatheWay Packaging Technology: The Company's BreatheWay membrane technology establishes a beneficial packaging atmosphere adapting to changing fresh product respiration and temperature in order to extend freshness naturally. Subsequent to the fiscal year ended May 29, 2022, on June 2, 2022, the Company sold its BreatheWay technology business for $3.2 million in cash.

Windset: Until June 1, 2021, the Company held a 26.9% investment ownership in Windset Holding 2010 Ltd. ("Windset"), a leading edge grower of hydroponically-grown produce. Included in discontinued operations are the dividends and Landec's share of the change in fair market value of its investment in Windset.

On June 1, 2021, the Company and Curation Foods sold all of its equity interests of Windset in exchange for an aggregate purchase price of $45.1 million, subject to certain adjustments.

Other

Included in the Other segment is Corporate, which includes corporate general and administrative expenses, non-Lifecore and non-Curation Food interest income, interest expense, and income tax expenses.

COVID-19 Pandemic

There are many uncertainties regarding the current novel coronavirus ("COVID-19") pandemic, including the scope of scientific and health issues, the anticipated duration of the pandemic, and the extent of local and worldwide social, political, and economic disruption it may cause. The COVID-19 pandemic, as well as actions taken in response to the pandemic, have had and we believe will continue to have significant adverse impacts on many aspects of the Company's operations, directly and indirectly, including with respect to sales, customer behaviors, business and manufacturing operations, inventory, the Company's employees, and the market generally, and the scope and nature of these impacts continue to evolve each day. The Company expects to continue to assess the evolving impact of the COVID-19 pandemic, and intends to continue to make adjustments to its responses accordingly.

Sales and Marketing

Lifecore relies on name recognition and referrals regarding its biomedical-based CDMO and manufacturing experience and expertise to attract new customers and offers its services with minimal marketing and sales infrastructure.

Curation Foods is supported by dedicated sales and marketing teams located throughout the U.S. and Canada.

Manufacturing and Processing

Seasonality

Lifecore is not significantly affected by seasonality. Curation Foods can be affected by seasonal weather factors, which can result in higher costs of sourcing and processing its products.

Lifecore Biomedical

The commercial production of HA requires fermentation, separation, and purification and aseptic processing capabilities. HA can primarily be produced in two ways, either through bacterial fermentation or through extraction from rooster combs. Lifecore produces HA only from bacterial fermentation, using an efficient microbial fermentation process and an effective purification operation.

Lifecore's facilities in Chaska, Minnesota are used for the HA and non-HA manufacturing process, formulation, aseptic syringe and vial filling, analytical services, secondary packaging, warehousing raw materials and finished goods, and distribution. Lifecore provides versatility in the manufacturing of various types of finished products and supplies several different forms of HA and non-HA products in a variety of molecular weight fractions as powders, solutions and gels, and in a variety of bulk and single-use finished packages. As of the date of this report, the Company believes that its current manufacturing capacity plan will be sufficient to allow it to meet the needs of its current customers for the foreseeable future.

Curation Foods

O Olive Oil & Vinegar

O uses third parties to crush, process, and bottle its olive oil products, primarily within California. The fermentation, production, and processing of vinegar is performed at the Company's facility in Petaluma, California, using ingredients sourced from various third parties primarily within California. *O* uses third parties in California to bottle its vinegar products.

Yucatan and Cabo Fresh

Guacamole for the Yucatan and Cabo Fresh brands is primarily produced and packed at the Company's facility in Guanajuato, Mexico, using ingredients sourced from various third parties within the United States and Mexico.

BreatheWay

BreatheWay packaging systems use polymer manufacturing, membrane manufacturing, and label package conversion. Contract manufacturers make virtually all of the polymers for the BreatheWay packaging system and breathable membranes. Subsequent to the fiscal year ended May 29, 2022, on June 2, 2022, the Company sold its BreatheWay technology business for $3.2 million in cash.

Competition

The Company operates in highly competitive and rapidly evolving fields, and new developments are expected to continue at a rapid pace. Competition from large food-products, industrial, medical and pharmaceutical companies is expected to be intense. In addition, the nature of our collaborative arrangements may result in our business partners and licensees becoming our competitors. Many of our competitors have substantially greater financial and technical resources and production and marketing capabilities than we do, and may have substantially greater experience in conducting clinical and field trials, obtaining regulatory approvals and manufacturing and marketing commercial products.

The food industry is highly competitive, and further consolidation with our customers would likely increase competition. Competitive pressures also may restrict our ability to increase prices, including in response to commodity and other cost increases. We sell branded, private brand, and customized food products, as well as commercially branded foods. Our branded products have an advantage over private brand products primarily due to advertising and name recognition, although private brand products typically sell at a discount to those of branded competitors. In addition, when branded competitors focus on price and promotion, the environment for private brand producers becomes more challenging because the price difference between private brand products and branded products may become less significant. In most product categories, we compete not only with other widely advertised branded products, but also with other private label and store brand products that are generally sold at lower prices. A strong competitive response from one or more of our competitors to our marketplace efforts, or a consumer shift towards more generic, lower-priced, or other value offerings, could result in us reducing pricing, increasing marketing or other expenditures, or losing market share. Our margins and profits could decrease if a reduction in prices or increased costs are not counterbalanced with increased sales volume.

In addition, substantial growth in e-commerce has encouraged the entry of new competitors and business models, intensifying competition by simplifying distribution and lowering barriers to entry. The expanding presence of e-commerce retailers has impacted, and may continue to impact, consumer preferences and market dynamics, which in turn may negatively affect our sales or profits.

Government Regulation

Lifecore

The Food and Drug Administration (“FDA”) regulates and/or approves the clinical trials, manufacturing, labeling, distribution, import, export, sale and promotion of medical devices and drug products in or from the United States. Some of the Company’s and its customers’ products are subject to extensive and rigorous regulation by the FDA, which regulates some of the products as medical devices or drug products, that in some cases require FDA approval or clearance, prior to U.S. distribution of Pre-Market Approval (“PMA”), or New Drug Applications (“NDA”), or Pre-Market Notifications, or other submissions and by foreign countries, which regulate some of the products as medical devices or drug products.

Other regulatory requirements are placed on the design, manufacture, processing, packaging, labeling, distribution, record-keeping and reporting of a medical device or drug products and on the quality control procedures. For example, medical device and drug manufacturing facilities are subject to periodic inspections by the FDA to assure compliance with device and/or drug requirements, as applicable. The FDA also conducts pre-approval inspections for PMA and NDA product introduction. Lifecore’s facility is subject to inspections as both a device and a drug manufacturing operation. For PMA devices and NDA drug products, the company that owns the product submission is required to submit an annual report and also to obtain approval, as applicable, for modifications to the device, drug product, or its labeling. Similarly, companies that own FDA Pre-Market Notifications for marketed products must obtain additional FDA clearance for certain modifications to their devices or labeling. Other applicable FDA requirements include but are not limited to reporting requirements such as the medical device reporting regulation, which requires certain companies to provide information to the FDA regarding deaths or serious injuries alleged to have been associated with the use of its devices, as well as product malfunctions that would likely cause or contribute to death or serious injury if the malfunction were to recur. FDA also maintains adverse event reporting requirements for drug products, among other post-market regulatory requirements.

Curation Foods

The Company’s food products and operations are also subject to regulation by various foreign, federal, state, and local agencies, with respect to production processes, product attributes, packaging, labeling, advertising, import, export, storage, transportation and distribution.

In the U.S., food products are primarily regulated by the FDA, which has the authority to inspect the Company's food facilities, and regulates, among other things, food manufacturing, food packing and holding, food additives, food safety, the growing and harvesting of produce intended for human consumption, food transportation, food labeling, food packaging, and food supplier controls including foreign supplier verification. In addition, advertising of our products is subject to regulation by the Federal Trade Commission ("FTC"), and operations are subject to certain health and safety regulations, such as those issued under the Occupational Safety and Health Act ("OSHA"). All of our U.S. facilities and food products must be in compliance with the Federal Food, Drug, and Cosmetic Act ("FDC Act") as amended by, among other things, the FDA Food Safety Modernization Act ("FSMA"). In addition, our operations in Mexico are subject to Mexican regulations through the SAGARPA, and our food products sold into Canada must be in compliance with applicable Canadian food safety and labeling regulations.

Human Capital

Our Mission

The strength of our team and our workplace culture is essential to our ability to achieve our broader mission. Attracting, developing and retaining exceptional employees is vitally important to us, and we invest in creating a differentiated culture for our team that enables continuous innovation at scale. We want to be a force for good, a team that is helping to improve the quality of life for our customers and employees. As of May 29, 2022, Landec had 689 full-time employees, of whom 561 were dedicated to research, development, manufacturing, quality control and regulatory affairs, and 128 were dedicated to sales, marketing and administrative activities. Landec intends to recruit additional personnel in connection with the development, manufacturing and marketing of its products.

Our Employee Engagement and Culture

Our hiring process has been designed to provide an equitable candidate experience, facilitate the inclusion of new perspectives, foster innovation and creativity and leverage technology and data analytics to address gaps in representation.

We developed a *COVID-19 Taskforce* to assure employee health and safety throughout the workplace and encourage employees to carry this information into their communities. We also partner with local health departments in our various locations to supply our employees with COVID-19 communications to keep them informed in the ever-changing environment.

We provide training to all employees in the areas of Food Safety, Human Safety and Human Resources. Individual training plans for continued growth are developed between employees and supervisors or managers. Frontline supervision workers at factory locations are provided continuous improvement tools for training in line with our "ZEST" efforts as well as employee interface training covering topics such as how to provide feedback or how to have difficult conversations regarding performance. ZEST is our manufacturing operational system that will empower our people to work in a different way, changing their mindset and behaviors leading to an acceleration of our performance across our operations.

- **Zero Mindset** - Zero breakdown, zero defects, zero recalls, zero accidents, zero pollution.
- **Empowerment** - Empower employees to impact change. I operate. I maintain. I own the outcomes.
- **Standardization** - Implementing the same practice across the network for efficiency.
- **Training** - The cornerstone of success and employee engagement.

We empower our employees to own their career path and seek out training programs to take them to the next level. We are currently in the process of developing a platform for growth opportunities and ways to understand and communicate career pathways. We have also invested in our training and development programs and infrastructure for our employees.

Available Information

Landec's website is www.landec.com. Landec makes available free of charge copies of its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after filing such material electronically with, or otherwise furnishing it to, the U.S. Securities and Exchange Commission ("SEC"). In addition, these materials may be obtained at the website maintained by the SEC at www.sec.gov. The reference to the Company's website address does not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

Item 1A. *Risk Factors*

Our business faces significant risks and uncertainties. Certain important factors may have a material adverse effect on our business, prospects, financial condition and results of operations, any of which could subsequently have an adverse effect on the trading price of our common stock, and you should carefully consider them. Accordingly, in evaluating our business, we encourage you to consider the following discussion of risk factors in its entirety, in addition to other information contained in or incorporated by reference into this Annual Report on Form 10-K and our other public filings with the SEC. Additional risks not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and results of operations in future periods.

Risks Related to Our Business and Operations

Our shareholder value creation program, Project SWIFT, may not have the anticipated results we intended, exposes us to additional restructuring costs and operational risks, and may be negatively perceived in the markets.

We have previously announced the development of a shareholder value creation program, Project SWIFT, designed to strategically realign our Curation Foods business to focus the business on its strategic assets and redesign the organization to be the appropriate size to compete and thrive. This program includes reviewing strategic options for the closure of our leased offices in Santa Maria, California and Los Angeles, California, the divestiture of our Eat Smart business, strategic review of our logistics operations, and certain other actions taken to redesign the Curation Foods organization. We may not be able to implement all of the actions that we intend to take in this program and we may not be able to realize the expected benefits from such realignment and restructuring plans or other similar restructurings on the anticipated timing, or at all. In addition, we may incur additional restructuring costs in implementing such realignment and restructuring plans or other similar future plans in excess of our expectations. The implementation of our restructuring efforts, including the potential reduction of our facilities and workforce, may not improve our operational and cost structure or result in greater efficiency of our organization; and we may not be able to support sustainable revenue growth and profitability following such restructurings. Any reduction in workforce or divestitures of facilities or other assets may also expose us to additional risks, including potential litigation (including labor and employment disputes), unforeseen costs or adverse impacts to the operations of our retained businesses. In addition, our strategic realignment efforts may not be viewed positively by shareholders and analysts, which may cause our stock price to decline or become volatile.

The COVID-19 Pandemic, or any other pandemic, epidemic or outbreak of an infectious disease in the United States or worldwide, may adversely affect our business.

In December 2019, a novel strain of coronavirus, COVID-19, was identified in Wuhan, China. This virus continues to spread globally and, as of May 29, 2022, has spread to approximately 160 countries, including the United States. To date, the COVID-19 pandemic and preventative measures taken to contain or mitigate the outbreak have caused, and are continuing to cause, business slowdowns or shutdowns in affected areas and significant disruption to our businesses and to the financial markets both globally and in the United States. The COVID-19 pandemic has had and we believe will continue to have significant adverse impacts on many aspects of the Company’s operations, directly and indirectly, including with respect to sales, customer behaviors, business and manufacturing operations, inventory, the Company’s employees, and the market generally, and the scope and nature of these impacts continue to evolve each day. In particular, the COVID-19 pandemic has resulted in and may continue to result in, regional quarantines, labor shortages or stoppages, adverse changes in consumer purchasing patterns, reductions in customer demand for our products, increased safety and compliance costs, increased logistics cost, disruptions to our supply chains, suppliers and service providers to deliver materials and services on a timely basis, and overall economic instability, which have significantly adversely affected and could further adversely affect our business, financial condition and results of operations. In addition, in response to the COVID-19 pandemic, our suppliers, growers, and corporate partners have reduced staffing and have reduced, delayed and postponed certain projects, initiatives or other arrangements in response to the spread of the COVID-19 pandemic, which may continue or worsen as the pandemic continues. These actions have resulted in and may result in further business and manufacturing disruption, inventory shortages, delivery delays, additional costs, and reduced sales and operations for us, any of which have and could further significantly affect our business, financial condition and results of operations. With respect to our Curation Foods business specifically, the responses to the COVID-19 pandemic have also adversely impacted and may further impact consumer spending and our customer’s preferences, which have had and may continue to have an adverse impact on our sales in that segment. With respect to our Lifecore business, the COVID-19 pandemic has resulted and may continue to result in fewer elective medical procedures, which, in turn, has and may continue to adversely impact our business and sales. The extent to which the COVID-19 pandemic has impacted our business is difficult to ascertain, and future potential impacts to our business will depend on how the COVID-19 pandemic continues to evolve, which is highly uncertain and cannot be predicted. Such future developments may include, among others, new information that may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact. The COVID-19 pandemic has adversely affected the economies and financial markets worldwide, resulting in an economic downturn that could affect demand for our products, our ability to obtain financing on favorable terms, our ability to comply with our obligations (including leases and debt covenants) and otherwise adversely impact our business, financial condition and results of operations.

The situation surrounding the COVID-19 pandemic remains fluid, and given its inherent uncertainty, we expect that it will continue to have significant adverse impacts on our business in the future. The duration and extent of the impact from the COVID-19 pandemic, or any other future pandemic, epidemic or outbreak, depends on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus and its variants, the extent and effectiveness of containment actions and the impact of these and other factors on our employees, customers, suppliers, distributors and manufacturers. Should these conditions persist for a prolonged period, the COVID-19 pandemic, including any of the above factors and others that are currently unknown, could continue to have a significant adverse effect on our business, financial condition and results of operations. The impact of the COVID-19 pandemic may also exacerbate other risks discussed elsewhere in this Report, any of which could have a material effect on us.

Our credit facilities provides our lenders with a lien against substantially all of our assets, and contains financial covenants that may limit our operational flexibility and cash flow available to invest in the ongoing needs of our business or otherwise adversely affect our results of operations.

We are party to two credit agreements, which contain a number of covenants that limit our ability and our subsidiaries' ability to, among other things, incur additional indebtedness, pay dividends, create liens, engage in transactions with affiliates, merge or consolidate with other companies, or sell substantially all of our assets. We are also required to maintain certain financial covenants, including a maximum total leverage ratio and a minimum fixed charge coverage ratio. The terms of our credit facilities may restrict our current and future operations and could adversely affect our ability to finance our future operations or capital needs or to execute preferred business strategies. In addition, complying with these covenants may make it more difficult for us to successfully execute our business strategy and compete against companies who are not subject to such restrictions.

A failure by us to comply with the covenants specified in our credit agreements, as amended, could result in an event of default under the agreements, which would give the lenders the right to terminate their commitments to provide additional loans under our credit facilities and to declare all borrowings outstanding, together with accrued and unpaid interest, to be immediately due and payable. In addition, the lenders would have the right to proceed against the collateral we granted to them, which consists of substantially all of our assets. We cannot guarantee that we will be able to remain in compliance with all applicable covenants under the credit agreements in the future, that our lenders will elect to provide waivers or enter into amendments in the future, or, if the lenders do provide waivers, that those waivers will not be conditioned upon additional costs or restrictions that could materially or adversely impact our business, cash flows, results of operations, and financial condition. In addition, if the debt under our credit facilities were to be accelerated, we may not have sufficient cash or be able to borrow sufficient funds to refinance the debt or sell sufficient assets to repay the debt, which could immediately, materially and adversely affect our business, cash flows, results of operations, and financial condition, and there would be no guarantee that we would be able to find alternative financing. Even if we were able to obtain alternative financing, it may not be available on commercially reasonable terms or on terms that are acceptable to us.

Our ability to make payments on our debt, fund our other liquidity needs, and make planned capital expenditures will depend on our ability to generate cash in the future. Our historical financial results have been, and we anticipate that our future financial results will be, subject to fluctuations. Our ability to generate cash, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond our control. We cannot guarantee that our business will generate sufficient cash flow from our operations or that future borrowings will be available to us in an amount sufficient to enable us to make payments of our debt, fund other liquidity needs, and make planned capital expenditures.

Cancellations or delays of orders by our customers may adversely affect our business and the sophistication and buying power of our customers could have a negative impact on profits.

During the fiscal year ended May 29, 2022, the Company had sales concentrations of 10% or greater from two customers within the Lifecore segment. We expect that, for the foreseeable future, a limited number of customers may continue to account for a substantial portion of our revenues. We may experience changes in the composition of our customer base as we have experienced in the past. The reduction, delay or cancellation of orders from one or more major customers for any reason or the loss of one or more of our major customers could materially and adversely affect our business, operating results, and financial condition. In addition, since some of the products processed by Lifecore and Curation Foods are sole sourced to customers, our operating results could be adversely affected if one or more of our major customers were to develop other sources of supply. Our current customers may not continue to place orders, orders by existing customers may be canceled or may not continue at the levels of previous periods, or we may not be able to obtain orders from new customers.

Our customers, such as supermarkets, warehouse clubs, and food distributors, have continued to consolidate, resulting in fewer customers on which we can rely for business. These consolidations, the growth of supercenters, and the growth of e-commerce customers have produced large, sophisticated customers with increased buying power and negotiating strength who are more capable of resisting price increases and can demand lower pricing, increased promotional programs, or specialty tailored products. In addition, larger retailers have the scale to develop supply chains that permit them to operate with reduced inventories or to develop and market their own retailer brands. These customers may also in the future use more of their shelf space, currently used for our products, for their store brand products. We continue to implement initiatives to counteract these pressures. However, if the larger size of these customers results in additional negotiating strength and/or increased private label or store brand competition, our profitability could decline.

Consolidation also increases the risk that adverse changes in our customers' business operations or financial performance will have a corresponding material adverse effect on us. For example, as noted above, if our customers cannot access sufficient funds or financing, then they may delay, decrease, or cancel purchases of our products, or delay or fail to pay us for previous purchases.

Our sale of some products may expose us to product liability claims.

The testing, manufacturing, marketing, and sale of the products we develop involve an inherent risk of allegations of product liability, including foodborne illness. If any of our products are determined or alleged to be contaminated or defective or to have caused an illness, injury or harmful accident to an end-customer, we could incur substantial costs in responding to complaints or litigation regarding our products and our product brand image could be materially damaged. Such events may have a material adverse effect on our business, operating results and financial condition. In addition, we may be required to participate in product recalls or we may voluntarily initiate a recall as a result of various industry or business practices or the need to maintain good customer relationships.

Although we have taken and intend to continue to take what we consider to be appropriate precautions to minimize exposure to product liability claims, we may not be able to avoid significant liability. We currently maintain product liability insurance. While we think the coverage and limits are consistent with industry standards, our coverage may not be adequate or may not 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 our business, operating results and financial condition.

We are subject to increasing competition in the marketplace.

Competitors may 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 us or that would render our technology and products obsolete and non-competitive. We operate in highly competitive and rapidly evolving fields, and new developments are expected to continue at a rapid pace. Competition from large food products, industrial, medical and pharmaceutical companies is expected to be intense. In addition, the nature of our collaborative arrangements may result in our corporate partners and licensees becoming our competitors. Many of these competitors have substantially greater financial and technical resources and production and marketing capabilities than we do, and may have substantially greater experience in conducting clinical and field trials, obtaining regulatory approvals and manufacturing and marketing commercial products.

The food industry is highly competitive, and further consolidation in the industry would likely increase competition. Our principal competitors have substantial financial, marketing, and other resources. Increased competition can reduce our sales due to loss of market share or the need to reduce prices to respond to competitive and customer pressures. Competitive pressures also may restrict our ability to increase prices, including in response to commodity and other cost increases. We sell branded, private brand, and customized food products, as well as commercially branded foods. Our branded products have an advantage over private brand products primarily due to advertising and name recognition, although private brand products typically sell at a discount to those of branded competitors. In addition, when branded competitors focus on price and promotion, the environment for private brand producers becomes more challenging because the price difference between private brand products and branded products may become less significant. In most product categories, we compete not only with other widely advertised branded products, but also with other private label and store brand products that are generally sold at lower prices. A strong competitive response from one or more of our competitors to our marketplace efforts, or a consumer shift towards more generic, lower-priced, or other value offerings, could result in us reducing pricing, increasing marketing or other expenditures, or losing market share. Our margins and profits could decrease if a reduction in prices or increased costs are not counterbalanced with increased sales volume.

In addition, substantial growth in e-commerce has encouraged the entry of new competitors and business models, intensifying competition by simplifying distribution and lowering barriers to entry. The expanding presence of e-commerce retailers has impacted, and may continue to impact, consumer preferences and market dynamics, which in turn may negatively affect our sales or profits.

We must identify changing consumer preferences and develop and offer food products to meet their preferences.

Consumer preferences evolve over time and the success of our food products depends on our ability to identify the tastes and dietary habits of consumers and to offer products that appeal to their preferences, including concerns of consumers regarding health and wellness, obesity, product attributes, and ingredients. Introduction of new products and product extensions requires significant development and marketing investment. If our products fail to meet consumer preferences, or we fail to introduce new and improved products on a timely basis, then the return on that investment will be less than anticipated and our strategy to grow sales and profits with investments in acquisitions, marketing, and innovation will be less successful.

Our operations are subject to regulations that directly impact our business.

Our products and operations are subject to governmental regulation in the United States and foreign countries. The manufacture of our products is subject to detailed standards for product development, manufacturing controls, ongoing quality monitoring and analysis, and periodic inspection by regulatory authorities. We may not be able to obtain necessary regulatory approvals on a timely basis or at all. Delays in receipt of or failure to receive approvals or loss of previously received approvals would have a material adverse effect on our business, financial condition and results of operations. Although we have no reason to believe that we will not be able to comply with all applicable regulations regarding the manufacture and sale of our products and polymer materials, regulations are always subject to change and depend heavily on administrative interpretations and the country in which the products are sold. Future changes in regulations or interpretations relating to matters such as safe working conditions, laboratory and manufacturing practices, produce safety, environmental controls, and disposal of hazardous or potentially hazardous substances may adversely affect our business.

Our food operations are subject to regulation by the FDA, FTC, and other governmental entities. Applicable laws and regulations are subject to change from time to time and could impact how we manage the production, labeling, and sale of our food products. We are subject, for example, to FDA compliance and regulations concerning the safety of the food products handled and sold by Curation Foods, and the facilities in which they are packed, processed, and stored. Failure to comply with the applicable regulatory requirements can, among other things, result in:

- the issuance of adverse inspectional observations,
- Warning or Courtesy Letters,
- import refusals,
- fines, injunctions, civil penalties, and facility suspensions,
- withdrawal of regulatory approvals or registrations,
- product recalls and product seizures, including cessation of manufacturing and sales,
- operating restrictions, and
- criminal prosecution

Compliance with foreign, federal, state, and local laws and regulations is costly and time-consuming. We may be required to incur significant costs to comply with the laws and regulations in the future which may have a material adverse effect on our business, operating results and financial condition.

Our food packaging products are subject to regulation under the FDC Act. Under the FDC Act, any substance that when used as intended may reasonably be expected to become, directly or indirectly, a component or otherwise affect the characteristics of any food may be regulated as a food additive unless the substance is generally recognized as safe. Food packaging materials are generally not considered food additives by the FDA if the products are not expected to become components of food under their expected conditions of use. We consider our breathable membrane product to be a food packaging material not subject to approval by the FDA. We have not received any communication from the FDA concerning our breathable membrane product. If the FDA were to determine that our breathable membrane products are food additives, we may be required to submit a food contact substance notification or food additive petition for approval by the FDA. The food additive petition process, in particular, is lengthy, expensive and uncertain. A determination by the FDA that a food contact substance notification or food additive petition is necessary would have a material adverse effect on our business, operating results and financial condition.

Our Curation Foods business is subject to the Perishable Agricultural Commodities Act ("PACA"). PACA regulates fair trade standards in the fresh produce industry and governs all the products sold by Curation Foods. Our failure to comply with the PACA requirements could among other things, result in civil penalties, suspension or revocation of a license to sell produce, and prosecution, which could have a material adverse effect on our business. In addition, the FTC and other state authorities regulate how we promote and advertise our food products, and we could be the target of claims relating to alleged false or deceptive advertising under federal, state, and local laws and regulations.

Lifecore's existing products and the products that Lifecore is developing for its customers are considered to be medical devices, drug products, or combination products, and therefore, require clearance or approval by the FDA before commercial sales can be made in the United States. The products also require the approval of foreign government agencies before sales may be made in many other countries. The process of obtaining these clearances or approvals varies according to the nature and use of the product. It can involve lengthy and detailed safety and efficacy data, including clinical studies, as well as extensive site inspections and lengthy regulatory agency reviews. There can be no assurance that any of the clinical studies utilizing product produced by Lifecore for its customers will be authorized to proceed, or if authorized will show safety or effectiveness; that any of the products that Lifecore is producing for its customers that require FDA clearance or approval will obtain such clearance or approval on a timely basis, on terms acceptable to the sponsor company for the purpose of actually marketing the products, or at all; or that following any such clearance or approval previously unknown problems will not result in restrictions on the marketing of the products or withdrawal of clearance or approval.

In addition, most of the existing products being sold by Lifecore and its customers are subject to continued regulation by the FDA, various state agencies and foreign regulatory agencies, which regulate the design, nonclinical and clinical research studies, manufacturing, labeling, distribution, post-marketing product modifications, advertising, promotion, import, export, adverse event and other reporting, and record keeping procedures for such products. Aseptic processing and shared equipment manufacturing require specific quality controls. If we fail to achieve and maintain these controls, we may have to recall product, or may have to reduce or suspend production while we address any deficiencies. Marketing clearances or approvals by regulatory agencies can be withdrawn due to failure to comply with regulatory standards or the occurrence of unforeseen problems following initial clearance or approval. These agencies can also limit or prevent the manufacture or distribution of Lifecore's products or change or increase the regulatory requirements applicable to such products. A determination that Lifecore is in violation of such regulations could lead to the issuance of adverse inspectional observations, a warning letter, imposition of civil penalties, including fines, product recalls or product seizures, preclusion of product import or export, a hold or delay in pending product approvals, withdrawal of marketing authorizations, injunctions against product manufacture and distribution, and, in extreme cases, criminal sanctions.

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 some of our manufacturing processes. Our failure to control the use of, or to restrict adequately the discharge of, hazardous substances under present or future regulations could subject us to substantial liability, cause us to clean up and incur remediation expenses, or cause our manufacturing operations to be suspended. In addition, changes in environmental regulations may impose the need for additional capital equipment or other requirements.

Any new business acquisition w***ill involve uncertainty relating to integration.***

We completed the Yucatan Foods acquisition in December, 2018, and the *O* acquisition in March, 2017. We have acquired other businesses in the past and may make additional acquisitions in the future. The successful integration of new business acquisitions may require substantial effort from the Company's management. 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 new businesses also requires coordination of research and development activities, manufacturing, sales and marketing efforts. In addition, the process of combining organizations located in different geographic regions 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, or that the Company will realize the anticipated benefits of any acquisitions, and the failure to do so would have a material adverse effect on the Company's business, results of operations and financial condition.

We may not be able to achieve acceptance of our new products in the marketplace.

Our success in generating significant sales of our products depends in part on our ability and that of our partners and licensees to achieve market acceptance of our new products and technology. The extent to which, and rate at which, we achieve market acceptance, including customer preferences and trends, and penetration of our current and future products is a function of many variables including, but not limited to:

- price,
- safety,
- efficacy,
- reliability,
- conversion costs,
- regulatory approvals,
- marketing and sales efforts, and
- general economic conditions affecting purchasing patterns

We may not be able to develop and introduce new products and technologies in a timely manner or new products and technologies may not gain market acceptance. We and our partners/customers are in the early stage of product commercialization of certain Intelimer-based specialty packaging, and HA-based products and non-HA products and new oil and vinegar products. We expect that our future growth will depend in large part on our and our partners'/customers' ability to develop and market new products in our target markets and in new markets. In particular, we expect that our ability to compete effectively with existing food products companies will depend substantially on developing, commercializing, achieving market acceptance of and reducing the cost of producing our products. In addition, commercial applications of some of our temperature switch polymer technology are relatively new and evolving. Our failure to develop new products or the failure of our new products to achieve market acceptance would have a material adverse effect on our business, results of operations and financial condition.

We have a concentration of manufacturing for Lifecore and Curation Foods and may have to depend on third parties to manufacture our products.

We have a limited number of manufacturing facilities, all of which use specialized manufacturing equipment to operate our business. Any disruptions in our primary manufacturing operations would reduce our ability to sell our products and would have a material adverse effect on our financial results, and create significant additional costs and inefficiencies if we were required to replace such facilities. Additionally, we may need to consider seeking collaborative arrangements with other companies to manufacture our products. If we become dependent upon third parties for the manufacture of our products, our profit margins and our ability to develop and deliver those products on a timely basis may be adversely affected. In that event, additional regulatory inspections or approvals may be required, and additional quality control measures would need to be implemented. Failures by third parties may impair our ability to deliver products on a timely basis and impair our competitive position. We may not be able to continue to successfully operate our manufacturing operations at acceptable costs, with acceptable yields, and retain adequately trained personnel.

Potential indemnification obligations related to divestitures made in connection with the sale transactions related to Project SWIFT may have a material adverse effect on our business, financial condition and results of operations.

The transaction documents related to the Eat Smart Disposition and the BreatheWay Sale provide for, among other things, indemnification obligations designed to make us potentially financially responsible for certain breaches in any of our representations or warranties or covenants, and certain other matters pursuant to such agreements. If we are required to indemnify the counterparties to these agreements, we may be subject to unforeseen or unanticipated liabilities, which may be material and which may have a material adverse effect on our business, financial condition and results of operations.

We are subject to the risks of doing business internationally.

We are subject to the risks of doing business internationally. We conduct a substantial amount of business with growers and customers who are located outside the United States. We purchase avocados from foreign growers and packers, sell products to foreign customers, and operate a production facility in Mexico. In the most recent years, there has been an increase in organized crime in Mexico, and significant changes in the Mexican government, both of which create risk for our business. We are also subject to regulations imposed by the Mexican government and to examinations by the Mexican tax authorities. Significant changes to these government regulations and to assessments by the Mexican tax authorities can have a negative impact on our operations and operating results in Mexico.

Fluctuations in foreign currency exchange rates in Mexico may also adversely affect our operating results. While our operations are predominantly in the U.S., we are exposed to foreign currency exchange rate risk with respect to our sales, expenses, profits, assets and liabilities denominated in the Mexican peso. As a result, our financial performance may be affected by changes in foreign currency exchange rates. Moreover, any favorable or unfavorable impacts to gross profit, gross margin, income from operations or segment operating profit from fluctuations in foreign currency exchange rates are likely to be inconsistent year over year.

Since some of our expenses are paid in Mexican pesos and we sell our production in United States dollars, we are subject to changes in currency values that may adversely affect our results of operations. Our operations in the future could be affected by changes in the value of the Mexican peso against the United States dollar. The appreciation of non-U.S. dollar currencies such as the peso against the U.S. dollar increases expenses and the cost of purchasing capital assets in U.S. dollar terms in Mexico, which can adversely impact our operating results and cash flows. Conversely, depreciation of non-U.S. dollar currencies usually decreases operating costs and capital asset purchases in U.S. dollar terms. The value of cash and cash equivalents, and other monetary assets and liabilities denominated in foreign currencies, also fluctuate with changes in currency exchange rates.

For fiscal year 2022, approximately 21% of our consolidated net revenues were derived from product sales to international customers. A number of risks are inherent in international transactions. International sales and operations may be limited or disrupted by any of the following:

- regulatory approval process,
- government controls,
- export license requirements,
- political instability,
- price controls,
- trade restrictions,
- fluctuations in foreign currencies,
- 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 on our part to obtain foreign regulatory approvals on a timely basis could have a material adverse effect on our international business, and our financial condition and results of operations. While our foreign sales are currently priced in dollars, fluctuations in currency exchange rates may reduce the demand for our products by increasing the price of our products in the currency of the countries in which the products are sold. Regulatory, geopolitical and other factors may adversely impact our operations in the future or require us to modify our current business practices.

Our dependence on single-source suppliers and service providers may cause disruption in our operations should any supplier fail to deliver materials.

Several of the raw materials we use to manufacture our products are currently purchased from a single source, including some monomers used to synthesize Intelimer polymers, substrate materials for our breathable membrane products, and raw materials for our HA products. Any interruption of our relationship with single-source suppliers or service providers could delay product shipments and materially harm our business. We may experience difficulty acquiring materials or services for the manufacture of our products or we may not be able to obtain substitute vendors on a timely basis or at all. In addition, we may not be able to procure comparable materials at similar prices and terms within a reasonable time, if at all, all of which could materially harm our business.

We depend on our infrastructure to have sufficient capacity to handle our on-going production needs.

If our machinery or facilities are damaged or impaired due to natural disasters or mechanical failure, or we lose members of our workforce such that our workforce falls below the levels needed to maintain our business, we may not be able to operate at a sufficient capacity to meet our production needs. This could have a material adverse effect on our business, which could impact our results of operations and our financial condition.

We depend on strategic partners and licenses for future development.

Our strategy for development, clinical and field testing, manufacture, commercialization and marketing for some of our current and future products includes entering into various collaborations with corporate partners, licensees, and others. We are dependent on our corporate partners to develop, test, manufacture and/or market some of our products. Although we believe that our 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 our control. Our partners may not perform their obligations as expected or we may not derive any additional revenue from the arrangements. Our partners may not pay any additional option or license fees to us or may not develop, market or pay any royalty fees related to products under such agreements. Moreover, some of the collaborative agreements provide that they may be terminated at the discretion of the corporate partner, and some of the collaborative agreements provide for termination under other circumstances. Our partners may pursue existing or alternative technologies in preference to our technology. Furthermore, we may not be able to negotiate additional collaborative arrangements in the future on acceptable terms, if at all, and our collaborative arrangements may not be successful.

Risks Related to Ownership of Our Common Stock

We have identified a material weakness in our internal control over financial reporting, which if not remediated, could adversely affect our business.

Our independent registered public accountants identified a material weakness in our internal control over financial reporting related to the restatement described elsewhere in this Annual Report on Form 10-K. A “material weakness” is a deficiency, or a combination of deficiencies, in internal controls over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls or if we experience difficulties in their implementation, our business and financial results could be harmed and we could fail to meet our financial reporting obligations. As part of preparing our fiscal year 2022 consolidated financial statements, we identified an error in management’s conclusions regarding the presentation of certain amounts related to discontinued operations as a result of the Eat Smart Disposition, which resulted in an error in our previously reported consolidated balance sheets and quarterly statements of operations presented in our fiscal year 2022 third quarter consolidated financial statements. See Part II, Item 8. Financial Statements and Supplementary Data, Note 1 for further information. If the steps we take do not correct the material weakness in a timely manner, we may be unable to conclude in the future that we maintain effective internal control over financial reporting.

See Item 9A., “Controls and Procedures,” in this Annual Report on Form 10-K for additional information regarding the identified material weakness and our actions to date to remediate the material weakness. The implementation of procedures to remediate the material weakness is ongoing and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles. We cannot be certain that these measures will successfully remediate the material weakness or that other material weaknesses and control deficiencies will not be discovered in the future. If our efforts are not successful or other material weaknesses or control deficiencies occur in the future, we may be unable to report our financial results accurately on a timely basis or help prevent fraud, which could cause our reported financial results to be materially misstated and result in the loss of investor confidence or delisting and cause the market price of our securities to decline.

While our management believes we have made progress toward remediating the underlying causes of the material weakness, the implementation of these procedures is ongoing and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles. We cannot be certain that these measures will successfully remediate the material weakness or that other material weaknesses and control deficiencies will not be discovered in the future. If our efforts are not successful or other material weaknesses or control deficiencies occur in the future, we may be unable to report our financial results accurately on a timely basis or help prevent fraud, which could cause our reported financial results to be materially misstated and result in the loss of investor confidence or delisting and cause the market price of our securities to decline.

Our future operating results are likely to fluctuate which may cause our stock price to decline.

In the past, our results of operations have fluctuated significantly from quarter to quarter and are expected to continue to fluctuate in the future. Curation Foods can be affected by seasonal and weather-related factors which have impacted our financial results in the past due to shortages of essential value-added produce items. Lifecore can be affected by the timing of orders from its relatively small customer base and the timing of the shipment of those orders. Our earnings may also fluctuate based on our ability to collect accounts receivable from customers and on price fluctuations in fruit markets. Other factors that affect our operations include:

- our ability and our growers' ability to obtain an adequate supply of labor,
- our growers' ability to obtain an adequate supply of water,
- the seasonality and availability and quantity of our supplies,
- our ability to process produce during critical harvest periods,
- the timing and effects of ripening,
- the degree of perishability,
- the effectiveness of worldwide distribution systems,
- total worldwide industry volumes,
- the seasonality and timing of consumer demand,
- foreign currency fluctuations, and
- foreign importation restrictions and foreign political risks.

In addition, the COVID-19 pandemic has increased the risk of fluctuations in such factors. As a result of these and other factors, we expect to continue to experience fluctuations in quarterly operating results.

Our stock price may fluctuate in response to various conditions, many of which are beyond our control.

The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including the following:

- weather-related produce sourcing issues,
- technological innovations applicable to our products,
- pandemics, epidemics and other natural disasters, including the COVID-19 pandemic,
- our attainment of (or failure to attain) milestones in the commercialization of our technology,
- our development of new products or the development of new products by our competitors,
- new patents or changes in existing patents applicable to our products,
- our acquisition of new businesses or the sale or disposal of a part of our businesses,
- development of new collaborative arrangements by us, our competitors or other parties,
- changes in government regulations, interpretation, or enforcement applicable to our business,
- changes in investor perception of our business,
- fluctuations in our operating results, and
- changes in the general market conditions in our industry.

Fluctuations in our quarterly results may, particularly if unforeseen, cause us to miss projections which might result in analysts or investors changing their valuation of our stock.

We may issue preferred stock with preferential rights that could affect your rights.

The issuance of shares of preferred stock could have the effect of making it more difficult for a third-party to acquire a majority of our outstanding stock, and the holders of such preferred stock could have voting, dividend, liquidation and other rights superior to those of holders of our Common Stock.

We have never paid any dividends on our common stock.

We have not paid any dividends on our Common Stock since inception and do not expect to in the foreseeable future. Any dividends may be subject to preferential dividends payable on any preferred stock we may issue.

Our corporate organizational documents and Delaware law have anti-takeover provisions that may inhibit or prohibit a takeover of us and the replacement or removal of our management.

The anti-takeover provisions under Delaware law, as well as the provisions contained in our corporate organizational documents, may make an acquisition of us more difficult. For example:

- our certificate of incorporation includes a provision authorizing our Board of Directors to issue blank check preferred stock without stockholder approval, which, if issued, would increase the number of outstanding shares of our capital stock and could make it more difficult for a stockholder to acquire us;
- our certificate of incorporation provides for a dual-class Board of Directors, in which each class will serve for a staggered two-year term;
- our certificate of incorporation limits the number of directors that may serve on the Board of Directors without the majority approval of all of the outstanding shares of our common stock;
- our amended and restated bylaws require advance notice of stockholder proposals and director nominations;
- our Board of Directors has the right to implement additional anti-takeover protections in the future, including stockholder rights plans and other amendments to our organizational documents, without stockholder approval; and
- Section 203 of the Delaware General Corporation Law may prevent large stockholders from completing a merger or acquisition of us.

These provisions may prevent a merger or acquisition of us which could limit the price investors would pay for our common stock in the future.

General Risks

Changes to U.S. trade policy, tariff and import/export regulations may have a material adverse effect on our business.

Changes in U.S. or international social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories or countries where we currently sell our products or conduct our business, as well as any negative sentiment toward the U.S. as a result of such changes, could adversely affect our business. For example, the previous U.S. presidential administration instituted or proposed changes in trade policies that include the negotiation or termination of trade agreements, the imposition of higher tariffs on imports into the U.S., economic sanctions on individuals, corporations or countries, and other government regulations affecting trade between the U.S. and other countries where we conduct our business.

As a result of such policy changes of the previous U.S. presidential administration and U.S. government proposals, there may be greater restrictions and economic disincentives on international trade. Tariffs and other changes in U.S. trade policy could trigger retaliatory actions by affected countries, and certain foreign governments have instituted or are considering imposing trade sanctions on certain U.S. goods. Such changes have the potential to adversely impact the U.S. economy or certain sectors thereof, our industry and the global demand for our products, and as a result, could have a material adverse effect on our business, financial condition and results of operations.

We may be exposed to employment related claims and costs that could materially adversely affect our business.

We have been subject in the past, and may be in the future, to claims by employees based on allegations of discrimination, negligence, harassment, and inadvertent employment of undocumented workers or unlicensed personnel, and we may be subject to payment of workers' compensation claims and other similar claims. We could incur substantial costs and our management could spend a significant amount of time responding to such complaints or litigation regarding employee claims, which may have a material adverse effect on our business, operating results and financial condition. In addition, several recent decisions by the United States NLRB have found companies, such as Curation Foods, which use contract employees could be found to be "joint employers" with the staffing firm, which may increase our potential exposure for any such claims from contract employees.

We may be subject to unionization, work stoppages, slowdowns or increased labor costs.

None of our U.S. based employees are represented by a union, while our employees in our Tanok, Mexico facility are represented by a local union. However, our employees have the right under the National Labor Relations Act to form or affiliate with a union. If some or all of our workforce were to become unionized and the terms of the collective bargaining agreement were significantly different from our current compensation arrangements, it could increase our costs and adversely impact our profitability. Moreover, participation in labor unions could put us at increased risk of labor strikes and disruption of our operations.

We are dependent on our key employees and if one or more of them were to leave, we could experience difficulties in replacing them, or effectively transitioning their replacements and our operating results could suffer.

The success of our business depends to a significant extent on the continued service and performance of a relatively small number of key senior management, technical, sales, and marketing personnel. The loss of any of our key personnel for an extended period may cause hardship for our business. In addition, competition for senior level personnel with knowledge and experience in our different lines of business is intense. If any of our key personnel were to leave, we would need to devote substantial resources and management attention to replace them. As a result, management attention may be diverted from managing our business, and we may need to pay higher compensation to replace these employees.

Our reputation and business may be harmed if our computer network security or any of the databases containing our trade secrets, proprietary information or the personal information of our employees, or those of third parties, are compromised.

Cyber-attacks or security breaches could compromise our confidential business information, cause a disruption in the Company's operations or harm our reputation. We maintain numerous information assets, including intellectual property, trade secrets, banking information and other sensitive information critical to the operation and success of our business on computer networks, and such information may be compromised in the event that the security of such networks is breached. We also maintain confidential information regarding our employees and job applicants, including personal identification information. The protection of employee and company data in the information technology systems we utilize (including those maintained by third-party providers) is critical. Despite the efforts by us to secure computer networks utilized for our business, security could be compromised, confidential information, such as Company information assets and personally identifiable employee information, could be misappropriated, or system disruptions could occur.

In addition, cyber-attacks on our customers or vendors could disrupt our ability to procure product from our vendors or our customers' ability to order our products, and may negatively impact our reputation. Any of these occurrences could disrupt our business, result in potential liability or reputational damage or otherwise have an adverse effect on our financial results.

In addition, we may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyberattacks. Attacks may be targeted at us, our customers, or others who have entrusted us with information. Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants. Advances in computer capabilities, new technological discoveries or other developments may result in the technology used by us to protect sensitive Company data being breached or compromised. Furthermore, actual or anticipated cyberattacks or data breaches may cause significant disruptions to our network operations, which may impact our ability to deliver shipments or respond to customer needs in a timely or efficient manner.

Data and security breaches could also occur as a result of non-technical issues, including an intentional or inadvertent breach by our employees or by persons with whom we have commercial relationships that result in the unauthorized release of confidential information related to our business or personal information of our employees. Any compromise or breach of our computer network security could result in a violation of applicable privacy and other laws, costly investigations and litigation, and potential regulatory or other actions by governmental agencies. As a result of any of the foregoing, we could experience adverse publicity, the compromise of valuable information assets, loss of sales, the cost of remedial measures and/or significant expenditures to reimburse third parties for resulting damages, any of which could adversely impact our brand, our business and our results of operations.

We may be unable to adequately protect our intellectual property rights or may infringe intellectual property rights of others.

We may receive notices from third parties, including some of our competitors, claiming infringement by our products of their patent and other proprietary rights. Regardless of their merit, responding to any such claim could be time-consuming, result in costly litigation and require us to enter royalty and licensing agreements which may not be offered or available on terms acceptable to us. If a successful claim is made against us and we fail to develop or license a substitute technology, we could be required to alter our products or processes and our business, results of operations or financial position could be materially adversely affected. Our success depends in large part on our ability to obtain patents, maintain trade secret protection, and operate without infringing on the proprietary rights of third parties. Any pending patent applications we file may not be approved and we may not be able to develop additional proprietary products that are patentable. Any patents issued to us may not provide us with competitive advantages or may be challenged by third parties. Patents held by others may prevent the commercialization of products incorporating our technology. Furthermore, others may independently develop similar products, duplicate our products or design around our patents.

The global economy is experiencing continued volatility, which may have an adverse effect on our business.

In recent years, the U.S. and international economy and financial markets have experienced significant volatility due to uncertainties related to the availability of credit, energy prices, the COVID-19 pandemic, national elections and other political events, difficulties in the banking and financial services sectors, diminished market liquidity, and geopolitical conflicts. Ongoing volatility in the economy and financial markets could further lead to reduced demand for our products, which in turn, would reduce our revenues and adversely affect our business, financial condition and results of operations. In particular, volatility in the global markets have resulted in softer demand and more conservative purchasing decisions by customers, including a tendency toward lower-priced products, which could negatively impact our revenues, gross margins and results of operations. In addition to a reduction in sales, our profitability may decrease because we may not be able to reduce costs at the same rate as our sales decline. We cannot predict the ultimate severity or length of the current period of volatility, or the timing or severity of future economic or industry downturns.

Given the current uncertain economic environment, and the COVID-19 pandemic, our customers, suppliers, and partners may have difficulties obtaining capital at adequate or historical levels to finance their ongoing business and operations, which could impair their ability to make timely payments to us. This may result in lower sales and/or inventory that may not be saleable or may result in bad debt expenses for us. A worsening of the economic environment or continued or increased volatility of the U.S. economy, including increased volatility in the credit markets, could adversely impact our customers' and vendors' ability or willingness to conduct business with us on the same terms or at the same levels as they have historically. Further, this economic volatility and uncertainty about future economic conditions makes it challenging for Landec to forecast its operating results, make business decisions, and identify the risks that may affect its business, sources and uses of cash, financial condition and results of operations.

Litigation costs and the outcome of litigation could have a material adverse effect on our business.

From time to time we may be subject to litigation claims through the ordinary course of our business operations regarding, but not limited to, employment matters, safety standards, product liability, security of customer and employee personal information, contractual relations with vendors, marketing and infringement of trademarks and other intellectual property rights. In addition, as described elsewhere in this report, the COVID-19 pandemic, and our responses thereto, may subject us to further litigation, including with respect to employment matters, contract disputes, and other matters. Litigation to defend ourselves against claims by third parties, or to enforce any rights that we may have against third parties, may continue to be necessary, which could result in substantial costs and diversion of our resources, causing a material adverse effect on our business, financial condition, results of operations or cash flows.

Future lapses in disclosure controls and procedures or internal control over financial reporting could materially and adversely affect the Company's operations, profitability or reputation.

As described in the Risk Factor entitled "We have identified a material weakness in our internal control over financial reporting, which if not remediated, could adversely affect our business", the Company has identified lapses and deficiencies in its controls and procedures, which have resulted in a material weakness. Additional lapses or deficiencies in disclosure controls and procedures or in our internal control over financial reporting may occur from time to time in the future. There can be no assurance that our disclosure controls and procedures will be effective in preventing a material weakness or significant deficiency in internal control over financial reporting from occurring in the future. Any such lapses or deficiencies may materially and adversely affect our business and results of operations or financial condition, restrict our ability to access the capital markets, require us to expend resources to correct the lapses or deficiencies, which could include the restating of previously reported financial results, expose us to regulatory or legal proceedings, harm our reputation, or otherwise cause a decline in investor confidence.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

As of May 29, 2022, the Company owned or leased the following principle physical properties:

Location	Business Segment	Ownership	Facilities
Chaska, MN	Lifecore	Owned	148,200 square feet of office, laboratory and manufacturing space
Silao, Guanajuato, Mexico	Curation Foods	Leased	97,000 square feet of office and manufacturing space
Chaska, MN	Lifecore	Leased	80,950 square feet of office, manufacturing and warehouse space
Santa Maria, CA	Curation Foods	Leased	36,300 square feet of office and laboratory space
Chanhassen, MN	Lifecore	Leased	21,384 square feet of warehouse and office space
Petaluma, CA	Curation Foods	Leased	18,400 square feet of office and manufacturing space

The Company does not anticipate experiencing significant difficulty in retaining occupancy of any of our manufacturing, laboratory, cold storage, or office facilities through lease renewals prior to expiration or through month-to-month occupancy, or in replacing them with equivalent facilities. We believe our existing facilities, both owned and leased, are in good condition and suitable for the conduct of our business.

Item 3. *Legal Proceedings*

The information contained in Note 9 - Commitments and Contingencies to the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K is incorporated herein by reference.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

The Common Stock is traded on the NASDAQ Global Select Market under the symbol "LNDC".

Holders

As of September 13, 2022, there were approximately 45 holders of record of our common stock. Since certain holders are listed under their brokerage firm's names, the actual number of stockholders is higher.

Dividends

The Company has not paid any dividends on the Common Stock since its inception. The Company presently intends to retain all future earnings, if any, for its business and does not anticipate paying cash dividends on its Common Stock in the foreseeable future.

Issuer Purchases of Equity Securities

For the twelve months ended May 29, 2022, there have been no shares repurchased by the Company. The Company may still repurchase up to $3.8 million of the Company's Common Stock under the Company's stock repurchase plan announced on July 14, 2010.

Recent Sales of Unregistered Equity Securities

The Company did not sell any unregistered equity securities during the twelve months ended May 29, 2022.

Item 6. *Reserved*

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements contained in Item 8 of this report. Except for the historical information contained herein, the matters discussed in this report are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. 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 in Item 1A. "Risk Factors". Please see "Note About Forward Looking Statements".

Overview

Landec Corporation and its subsidiaries ("Landec", the "Company", "we" or "us") design, develop, manufacture, and sell differentiated products for food and biomaterials markets, and license technology applications to partners. Landec has three reportable business segments – Lifecore, Curation Foods, and Other which are described below. Landec's biomedical company, Lifecore Biomedical®, is a fully integrated contract development and manufacturing organization ("CDMO") that offers highly differentiated capabilities in the development, fill and finish of sterile, injectable pharmaceutical products in syringes and vials. As a leading manufacturer of premium, injectable grade Hyaluronic Acid, Lifecore brings 37 years of expertise as a partner for global and emerging biopharmaceutical and biotechnology companies across multiple therapeutic categories to bring their innovations to market.

Landec's natural food company, Curation Foods, Inc. ("Curation Foods") is focused on innovating and distributing plant-based foods with 100% clean ingredients to retail, club and foodservice channels throughout North America.

Included in the Other segment is Corporate, which includes corporate general and administrative expenses, non-Lifecore and non-Curation Food interest income, interest expense, and income tax expenses.

Strategy

The Company's strategy is to maximize the value of our business portfolio by investing in growth to drive momentum at Lifecore while driving profitable growth across the organization with consumer insights driven innovation. Each of our business segments are in different life stages and have clear strategic priorities.

On August 10, 2022, Landec formally announced that we will become a CDMO-focused life sciences company with a planned corporate rebranding including renaming the Company to Lifecore Biomedical and exploring potential sales opportunities of the Company's remaining Curation Foods assets.

Lifecore

Lifecore is the Company's FDA-approved CDMO business, which is focused on driving profitable growth with product development and manufacturing of sterile injectable products. Lifecore seeks to expand its presence in the CDMO marketplace by partnering with biopharmaceutical and biotechnology companies to bring their unique therapies to market. Lifecore's goal of continuing success will be to execute on its three strategic priorities:

1) Managing Business Development Pipeline: Accelerate product development activities for small and large biopharmaceutical and biotechnology companies in various stages of the product lifecycle, spanning clinical development stage to commercialization, which aligns with the business' overall product development strategy.

2) Maximizing Capacity: Meet customer demand by maximizing capacity in the syringe and vial multi-purpose filler production line to significantly increase the number of products produced.

3) Advancing Product Commercialization: Continue to seek out opportunities to advance customers' late-stage product development activities by supporting their clinical programs and commercial process scale-up activities.

Curation Foods

Curation Foods, the Company's natural food business, is focused on transforming its business to improve operational performance. The Company launched Project SWIFT which aims to strengthen Curation Foods by simplifying the business. The Company believes that the decisive actions of Project SWIFT will help improve the Company's operating cost structure, enhance profitability, and strengthen its balance sheet with an overall aim to deliver long-term value to shareholders. Curation Foods intends to continue to deliver high levels of product quality and safety, while successfully executing on its customer and partner commitments. Project SWIFT will continue to be implemented throughout fiscal 2023, with three strategic priorities designed to improve Curation Foods' overall financial performance and profitability:

1) Network & Operational Optimization: Streamline the organization to maximize efficiency and productivity by continuous improvement in plant operations with lean manufacturing practices. This included the consolidation and centralization of Curation Foods various offices into its Innovation Center headquarters in Santa Maria, California in fiscal 2020.

2) Focus on Strategic Assets: Simplify the business by divesting non-core assets. In the first quarter of fiscal year 2021, the Company sold its interest in the Ontario, California salad dressing manufacturing facility for net proceeds of $4.9 million. During the second quarter of fiscal year 2021, the Company sold the underutilized Hanover manufacturing facility building and assets related thereto for net proceeds of $8.0 million. In the third quarter of fiscal year 2022, the Company sold Curation Foods' Eat Smart business, including its salad and cut vegetable businesses for a purchase price of $73.5 million in cash, subject to post-closing adjustments based upon net working capital at the Closing Date. Subsequent to the end of fiscal year 2020, on June 2, 2022, the Company and Curation Foods entered into and closed an Asset Purchase Agreement with Hazel Technologies, Inc. (the "Purchaser"), pursuant to which Curation Foods sold all of its assets related to BreatheWay packaging technology business to the Purchasers in exchange for an aggregate purchase price of $3.2 million.

3) Organizational Redesign: Redesigning the organization so that it is the appropriate size for the Company's future direction. In fiscal 2021 through 2022, the Company focused on redesigning strategic initiatives, developed and elevated internal talent and reduced overall headcount to improve efficiencies.

The COVID-19 Pandemic

There are many uncertainties regarding the COVID-19 pandemic, including the scope of scientific and health issues, the anticipated duration of the pandemic, and the extent of local and worldwide social, political, and economic disruption it may cause. The COVID-19 pandemic has had and we believe will continue to have significant adverse impacts on many aspects of the Company's operations, directly and indirectly, including with respect to sales, customer behaviors, business and manufacturing operations, inventory, the Company's employees, and the market generally, and the scope and nature of these impacts continue to evolve each day. The Company expects to continue to assess the evolving impact of the COVID-19 pandemic, and intends to continue to make adjustments to its responses accordingly.

Critical Accounting Policies and Use of Estimates

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make certain estimates and judgments that affect the amounts reported in the financial statements and accompanying notes to the Consolidated Financial Statements. The accounting estimates that require management's most significant and subjective judgments include revenue recognition; loss contingencies, sales returns and credit losses; recognition and measurement of current and deferred income tax assets and liabilities; the assessment of recoverability of long-lived assets (including intangible assets and goodwill) and inventory; the valuation and recognition of stock-based compensation.

These estimates involve the consideration of complex factors and require management to make judgments. The analysis of historical and future trends can require extended periods of time to resolve, and are subject to change from period to period. The actual results may differ from management's estimates. Our accounting policies are more fully described in Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies to our consolidated financial statements. Management has discussed the development and selection of these critical accounting policies and estimates with our Board of Directors.

Revenue Recognition

The Company follows the five step, principles-based model to recognize revenue upon the transfer of promised goods or services to customers and in an amount that reflects the consideration for which the Company expects to be entitled in exchange for those goods or services. Revenue, net of estimated allowances and returns, is recognized when or as the Company satisfies its performance obligations under a contract and control of the product is transferred to the customer.

Lifecore

Lifecore generates revenue from two integrated activities: CDMO and Fermentation. CDMO is comprised of aseptic and development services. Lifecore's standard terms of sale are generally included in its contracts and purchase orders. Shipping and other transportation costs charged to customers are recorded in both revenue and cost of goods sold. Lifecore has elected to account for shipping and handling as fulfillment activities, and not as a separate performance obligation. Lifecore's standard payment terms with its customers generally range from 30 days to 60 days.

Aseptic

Lifecore provides aseptic formulation and filling of syringes and vials with precisely formulated medical grade HA and non-HA materials for injectable products used for medical purposes. In instances where our customers contract with us to aseptically fill syringes or vials with our HA, the goods are not distinct in the context of the contract. Lifecore recognizes revenue for these products at the point in time when legal title to the product is transferred to the customer, which is at the time that shipment is made or upon delivery of the product.

Development Services

Lifecore provides product development services to assist its customers in obtaining regulatory approval for the commercial sale of their drug product. These services include activities such as technology development, material component changes, analytical method development, formulation development, pilot studies, stability studies, process validation and production of materials for use within clinical studies. The Company's customers benefit from the expertise of its scientists who have extensive experience performing such tasks.

Each of the promised goods and services are not distinct in the context of the contract as the goods and services are highly interdependent and interrelated. The services described above are significantly affected by each other because Lifecore would not be able to fulfill its promise by transferring each of the goods or services independently.

Revenues generated from development services arrangements are recognized over time as Lifecore is creating an asset without an alternate use as it is unique to the customer. Furthermore, the Company has an enforceable right to payment for the performance completed to date for its costs incurred in satisfying the performance obligation plus a reasonable profit margin. For each of the development activities performed by Lifecore as described above, labor is the primary input (i.e., labor costs represent the majority of the costs incurred in the completion of the services). The Company determined that labor hours are the best measure of progress as it most accurately depicts the effort extended to satisfy the performance obligation over time.

Fermentation

Lifecore manufactures and sells pharmaceutical-grade sodium hyaluronate (“HA”) in bulk form to its customers. The HA produced is distinct as customers are able to utilize the product provided under HA supply contracts when they obtain control. Lifecore recognizes revenue for these products at the point in time when legal title to the product is transferred to the customer, which is at the time that shipment is made or upon delivery of the product to our customer.

Curation Foods

Curation Foods’ standard terms of sale, both prior to and following the Eat Smart Disposition, are generally included in its contracts and purchase orders. Revenue is recognized at the time shipment is made or upon delivery as control of the product is transferred to the customer. Shipping and other transportation costs charged to customers are recorded in both revenue and cost of goods sold. Curation Foods has elected to account for shipping and handling as fulfillment activities, and not as a separate performance obligation. Curation Foods’ standard payment terms with its customers generally range from 30 days to 90 days. Certain customers may receive cash-based incentives (including: volume rebates, discounts, and promotions), which are accounted for as variable consideration to Curation Foods’ performance obligations. Curation Foods estimates these sales incentives based on the expected amount to be provided to its customers and reduces revenues recognized towards its performance obligations. The Company has not historically had and does not anticipate significant changes in its estimates for variable consideration.

Impairment Review of Goodwill and Indefinite-Lived Intangible Asset

The Company tests its goodwill and trademarks with indefinite lives annually for impairment in the fiscal fourth quarter or earlier if there are indications during a different interim period that these assets may have become impaired.

On a quarterly basis, the Company considers the need to update its most recent annual tests for possible impairment of its indefinite-lived intangible assets and goodwill, based on management’s assessment of changes in its business and other economic factors since the most recent annual evaluation. Such changes, if significant or material, could indicate a need to update the most recent annual tests for impairment of the indefinite-lived intangible assets during the current period. The results of these tests could lead to write-downs of the carrying values of these assets in the current period.

With respect to goodwill, the Company has the option to first assess qualitative factors such as macro-economic conditions, industry and market environment, cost factors, overall financial performance of the Company, cash flow from operating activities, market capitalization, litigation, and stock price. If the result of a qualitative test indicates a potential for impairment of a reporting unit, a quantitative test is performed. The quantitative test compares the carrying amount of a reporting unit that includes goodwill to its fair value. The Company determines the fair value using an income approach. Under the income approach, fair value is determined based on estimated future cash flows, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of the Company and the rate of return an outside investor could expect to earn. A goodwill impairment loss is recognized for the amount that the carrying amount of a reporting unit, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit.

To determine the fair value of a reporting unit as part of its quantitative test, the Company uses a discounted cash flow ("DCF") method under the income approach, as it believes that this approach is the most reliable indicator of the fair value of its businesses and the fair value of their future earnings and cash flows. Under this approach, which requires significant judgments, the Company estimates the future cash flows of each reporting unit and discounts these cash flows at a rate of return that reflects their relative risk. The cash flows used in the DCF method are consistent with those the Company uses in its internal planning, which gives consideration to actual business trends experienced, and the broader business strategy for the long term. The other key estimates and factors used in the DCF method include, but are not limited to, future volumes, net sales and expense growth rates, gross margin and gross margin growth rates, and the discount rate applied. Changes in such estimates or the application of alternative assumptions could produce different results.

For trademarks and other intangible assets with indefinite lives, the Company has the option to first assess qualitative factors such as macro-economic conditions, industry and market environment, cost factors, overall financial performance of the Company, litigation, and changes in the business in its annual, qualitative analysis to test for impairment. If the results of a qualitative test indicate a potential for impairment of an intangible asset with an indefinite life, a quantitative test is performed. The quantitative test compares the estimated fair value of an asset to its carrying amount. If the carrying amount of such asset exceeds its estimated fair value, an impairment charge is recorded for the difference between the carrying amount and the estimated fair value. The Company uses the income approach to estimate the fair value of its trademarks. This approach requires significant judgments in determining the royalty rates and the assets' estimated cash flows as well as the appropriate discount rates applied to those cash flows to determine fair value. Changes in such estimates or the use of alternative assumptions could produce different results.

During fiscal year 2020, the Company recorded an impairment charge of $1.1 million and $3.5 million related to its *O* and Yucatan Foods trademarks, respectively. The Company also recorded an impairment charge of $5.2 million and $2.7 million related to its *O* and Yucatan Foods goodwill, respectively. The *O* impairment charges were primarily a result of the recently updated (lowered) financial outlook for the *O* reporting unit, related to a recent shift in strategic focus within the Curation Foods business segment. The Yucatan Foods impairment charges were primarily a result of an increase in the Yucatan Foods carrying value and an increase in the discount rate, as a result of uncertainty in forecasting the effects of COVID-19 and general economic uncertainties. These impairment charges are included in the line item "impairment of goodwill and intangible assets" on the Consolidated Statements of Operations, and both are in the Curation Foods business segment.

During fiscal year 2022, the Company recorded impairment charges of $32.1 million and $20.0 million related to its Eat Smart business and Yucatan Foods goodwill, respectively. The Company also recorded an impairment charge of $8.7 million related to its Yucatan Foods trademarks. These impairment charges were primarily a result of an indication of a decrease in the fair market values of our Eat Smart and Yucatan Foods businesses driven by lower market valuations and a decrease in projected cash flows. The goodwill impairment charge related to the Eat Smart business goodwill is included in "loss from discontinued operations" within the Consolidated Statements of Operations. The Yucatan Foods related impairment charges are included in the line item "impairment of goodwill and intangible assets" on the Consolidated Statements of Operations and are in the Curation Foods business segment.

Income Taxes

The Company accounts for income taxes in accordance with accounting guidance which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. The Company maintains valuation allowances when it is likely that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the Company's income tax provision in the period of change. In determining whether a valuation allowance is warranted, the Company takes into account such factors as prior earnings history, expected future earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of a deferred tax asset, carryback and carryforward periods and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset.

In addition to valuation allowances, the Company establishes accruals for uncertain tax positions. The tax-contingency accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense. The Company's effective tax rate includes the impact of tax-contingency accruals as considered appropriate by management.

A number of years may elapse before a particular matter, for which the Company has accrued, is audited and finally resolved. The number of years with open tax audits varies by jurisdiction. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, the Company believes its tax-contingency accruals are adequate to address known tax contingencies. Favorable resolution of such matters could be recognized as a reduction to the Company's effective tax rate in the year of resolution. Unfavorable settlement of any particular issue could increase the Company's effective tax rate in the year of resolution. Any resolution of a tax issue may require the use of cash in the year of resolution. The Company's tax-contingency accruals are recorded in Other accrued liabilities in the accompanying Consolidated Balance Sheets.

Results of Operations

Revenues:

Lifecore generates revenues from the development and manufacture of pharmaceutical-grade sodium hyaluronate ("HA") products and providing contract development and aseptic manufacturing services to customers. Lifecore generates revenues from two integrated activities: (1) CDMO and (2) fermentation.

Curation Foods revenues for the periods presented consist of revenues generated from sales of (1) Yucatan, Cabo Fresh, and private label branded guacamole and avocado products, (2) *O* olive oils and wine vinegars, and (3) BreatheWay packaging to license partners. As a result of the Eat Smart Disposition, the Company met the requirements of ASC 205-20, to report the results of the Eat Smart business as a discontinued operation. Accordingly, the operating results for the Eat Smart business have therefore been reclassified as a discontinued operations for the periods presented.

(In thousands, except percentages)	Year Ended		Change		Year Ended		Change	
	May 29, 2022	May 30, 2021	Amount	%	May 30, 2021	May 31, 2020	Amount	%
Lifecore	$ 109,320	$ 98,087	$ 11,233	11%	$ 98,087	$ 85,833	$ 12,254	14%
Curation Foods	76,466	73,459	3,007	4%	73,459	74,233	(774)	(1)%
Total Revenues	$ 185,786	$ 171,546	$ 14,240	8%	$ 171,546	$ 160,066	$ 11,480	7%

Lifecore

The increase in Lifecore's revenues for fiscal year 2022 compared to fiscal year 2021 was primarily due to an $11.0 million increase in CDMO revenues from an increase in development services activities resulting in higher sales to new and existing customers and an increase in aseptic commercial shipments, resulting from increased demand from existing customers, as well as a $0.2 million increase in fermentation sales due to higher sales to existing customers.

The increase in Lifecore's revenues for fiscal year 2021 compared to fiscal year 2020 was primarily due to a $10.5 million increase in CDMO revenues resulting from increased demand from existing customers that drove an increase in aseptic filling commercial shipments, and a $1.7 million increase in fermentation sales due to higher sales to existing customers.

Curation Foods

The increase in Curation Foods' revenues for fiscal year 2022 compared to fiscal year 2021 was primarily driven by increased volume of sales of our guacamole and avocado products and olive oil and wine vinegars.

The decrease in Curation Foods' revenues for fiscal year 2021 compared to fiscal year 2020 was primarily driven by a decrease in our technology revenue primarily due to a $1.6 million nonrecurring royalty transaction in fiscal year 2020, partially offset by an increase in revenue from our Avocado Products driven by an increase in volume of sales of our guacamole and avocado products.

Gross Profit:

There are numerous factors that can influence gross profit including product mix, customer mix, manufacturing costs, volume, sales discounts and charges for excess or obsolete inventory, to name a few. Many of these factors influence or are interrelated with other factors. The Company includes in cost of sales all of the following costs: raw materials (including packaging, syringes, fermentation and purification supplies), direct labor, overhead (including indirect labor, depreciation, and facility-related costs), and shipping and shipping-related costs.

(In thousands, except percentages)	Year Ended		Change		Year Ended		Change	
	May 29, 2022	May 30, 2021	Amount	%	May 30, 2021	May 31, 2020	Amount	%
Lifecore	$ 43,746	$ 38,265	$ 5,481	14%	$ 38,265	$ 32,883	$ 5,382	16%
Curation Foods	6,624	12,206	(5,582)	(46)%	12,206	6,504	5,702	88%
Total Gross Profit	$ 50,370	$ 50,471	$ (101)	—%	$ 50,471	$ 39,387	$ 11,084	28%

Lifecore

The increase in Lifecore's gross profit for fiscal year 2022 compared to fiscal year 2021 was primarily due to an 11% increase in revenues, as well as a favorable product mix change in fiscal year 2022. As a result, Lifecore's gross margin increased to 40.0% in fiscal year 2022 from 39.0% in fiscal year 2021.

The increase in Lifecore's gross profit for fiscal year 2021 compared to fiscal year 2020 was primarily due to a 14% increase in revenues, as well as a favorable product mix change in fiscal year 2021. As a result, Lifecore's gross margin increased to 39.0% in fiscal year 2021 from 38.3% in fiscal year 2020.

Curation Foods

The decrease in gross profit for the Curation Foods business for fiscal year 2022 compared to fiscal year 2021 was primarily driven by increased freight costs combined with increased raw product sourcing costs.

The increase in gross profit for the Curation Foods business for fiscal year 2021 compared to fiscal year 2020 was primarily due to an increase in gross profits from avocado products driven by the sale of products in fiscal 2021 produced with lower cost avocados than those used for products sold in fiscal 2020.

Operating Expenses:

Research and Development (R&D)

R&D expenses consist primarily of product development and commercialization initiatives. R&D expenses in our Lifecore business are focused on new products and applications for HA-based and non-HA biomaterials. In the Curation Foods business R&D expenses are primarily focused on innovating our current product lines and on the Company's proprietary BreatheWay membranes used for packaging produce, with a focus on extending the shelf-life of sensitive vegetables and fruit. For Other, the R&D expenses are primarily focused on creating and developing new innovative lines of products.

(In thousands, except percentages)	Year Ended		Change		Year Ended		Change	
	May 29, 2022	May 30, 2021	Amount	%	May 30, 2021	May 31, 2020	Amount	%
Lifecore	$ 7,359	$ 6,157	$ 1,202	20%	$ 6,157	$ 5,910	$ 247	4%
Curation	482	1,266	(784)	(62)%	1,266	1,625	(359)	(22)%
Other	—	—	—	—%	—	47	(47)	(100)%
Total R&D	$ 7,841	$ 7,423	$ 418	6%	$ 7,423	$ 7,582	$ (159)	(2)%

The increase in R&D expenses for fiscal year 2022 compared to fiscal year 2021 was primarily due an increase in Lifecore's R&D expenses primarily due to higher salary and benefit expenses, including increased headcount, partially offset but a decrease in Curation Foods R&D expenses due to a decrease in R&D activities.

The decrease in R&D expenses for fiscal year 2021 compared to fiscal year 2020 was primarily due a decrease in Curation Foods and Other R&D expenses due to a decrease in R&D activities in these segments, partially offset by an increase in Lifecore's R&D expenses primarily due to higher salary and benefit expenses, including increased headcount.

Selling, General and Administrative ("SG&A")

SG&A expenses consist primarily of sales and marketing expenses associated with Landec's product sales and services, business development expenses, and staff and administrative expenses.

(In thousands, except percentages)	Year Ended		Change		Year Ended		Change	
	May 29, 2022	May 30, 2021	Amount	%	May 30, 2021	May 31, 2020	Amount	%
Lifecore	$ 10,033	$ 8,305	$ 1,728	21%	$ 8,305	$ 7,688	$ 617	8%
Curation Foods	19,666	10,920	8,746	80%	10,920	14,616	(3,696)	(25)%
Other	16,428	18,435	(2,007)	(11)%	18,435	18,370	65	—%
Total SG&A	$ 46,127	$ 37,660	$ 8,467	22%	$ 37,660	$ 40,674	$ (3,014)	(7)%

The increase in SG&A expenses for fiscal year 2022 compared to fiscal year 2021 was primarily due to a $8.8 million increase in the Curation Foods segment driven by costs incurred related to the transition services agreement for the Eat Smart Disposition, and a $1.7 million increase at Lifecore due to increased salary and benefit expenses, including increased headcount. These decreases were partially offset by a $2.0 million decrease in the Other segment driven by a decrease in legal costs.

The decrease in SG&A expenses for fiscal year 2021 compared to fiscal year 2020 was primarily due to cost cutting and restructuring efforts in our Curation Foods segment associated with Project SWIFT. These decreases were partially offset by a $0.6 million increase at Lifecore due to increased salary and benefit expenses, including increased headcount.

Impairment of Goodwill and Intangible assets, Legal Settlement Charge, and Restructuring Costs

(In thousands, except percentages)	Year Ended		Change		Year Ended		Change	
	May 29, 2022	May 30, 2021	Amount	%	May 30, 2021	May 31, 2020	Amount	%
Impairment of Goodwill and Intangible Assets	$ 28,735	$ —	$ 28,735	100%	$ —	$ 12,953	$(12,953)	(100)%
Legal Settlement Charge	—	1,763	(1,763)	(100)%	1,763	—	1,763	100%
Restructuring Costs	8,961	3,759	5,202	138%	3,759	4,054	(295)	(7)%

During fiscal year 2022, the Company recorded an impairment charge of $20.0 million related to its Yucatan Foods goodwill. The Company also recorded an impairment charge of $8.7 million related to its Yucatan Foods trademarks. These impairment charges were primarily a result of an indication of a decrease in the fair market values of our Yucatan Foods businesses driven by lower market valuations and a decrease in projected cash flows. The Yucatan Foods related impairment charges are included in the line item "impairment of goodwill and intangible assets" on the Consolidated Statements of Operations and are in the Curation Foods business segment. Refer to Note 1 - Impairment Review of Goodwill and Indefinite-Lived Intangible Asset in the notes to our consolidated financial statements for more information.

During fiscal year 2020, the Company recorded an impairment charge of $1.1 million and $3.5 million related to its *O* and Yucatan Foods trademarks, respectively. The Company also recorded an impairment charge of $5.2 million and $2.7 million related to its *O* and Yucatan Foods goodwill, respectively. The *O* impairment charges were primarily a result of the recently updated (lowered) financial outlook for the *O* reporting unit, related to a recent shift in strategic focus within the Curation Foods business segment. The Yucatan Foods impairment charges were primarily a result of an increase in the Yucatan Foods carrying value and an increase in the discount rate, as a result of uncertainty in forecasting the effects of COVID-19 and general economic uncertainties. These impairment charges are included in the line item "impairment of goodwill and intangible assets" on the Consolidated Statements of Operations, and both are in the Curation Foods business segment.

In fiscal year 2021 the Company executed a settlement agreement related to a legal matter with Pacific Harvest, Inc. and Rancho Harvest, Inc., In connection with the settlement agreement, the Company recorded a $1.8 million charge after considering the total settlement amount and insurance recoveries, and this amount is included in legal settlement charge in the Consolidated Statements of Operations for the fiscal year ended May 30, 2021. Refer to Note 9 - Commitments and Contingencies - Legal Contingencies in the notes to our consolidated financial statements for more information.

During fiscal year 2020, the Company announced a restructuring plan to drive enhanced profitability, focus the business on its strategic assets and redesign the organization to be the appropriate size to compete and thrive. This includes a reduction-in-force, a reduction in leased office spaces and the sale of non-strategic assets. The Company recorded $9.0 million, $3.8 million, and $4.1 million in fiscal years 2022, 2021, and 2020, respectively, related to the restructuring plan. Restructuring costs for fiscal year 2022 increased $5.2 million compared to fiscal year 2021 due to increased restructuring activity in our Curation Foods Segment as part of our Project SWIFT initiatives to sell Curation Foods assets and prepare the Company for the transition to Lifecore. Restructuring costs for fiscal year 2021 decreased $0.3 million compared to fiscal year 2020 due to a decrease in restructuring activity related to continuing operations in our Curation Foods Segment as part of our Project SWIFT initiatives. Refer to Note 13 - Restructuring Costs in the notes to our consolidated financial statements for more information.

Other:

(In thousands, except percentages)	Year Ended		Change		Year Ended		Change	
	May 29, 2022	May 30, 2021	Amount	%	May 30, 2021	May 31, 2020	Amount	%
Interest Income	$ 81	$ 48	$ 33	69%	$ 48	$ 72	$ (24)	(33)%
Interest Expense, net	(17,357)	(10,387)	(6,970)	67%	(10,387)	(4,646)	(5,741)	124%
Transition Services Income	5,814	—	5,814	100%	—	—	—	—%
Loss on Debt Refinancing	—	(1,110)	1,110	(100)%	(1,110)	—	(1,110)	100%
Other Income (Expense), net	641	111	530	N/M	111	(195)	306	N/M
Income Tax Benefit	5,839	1,903	3,936	207%	1,903	8,774	(6,871)	(78)%

Interest Income

The decrease in interest income in fiscal year 2022 compared to fiscal year 2021, and 2021 compared to fiscal 2020 was not significant.

Interest Expense

The increase in interest expense during fiscal year 2022 compared to fiscal year 2021, was primarily a result of prepaid interest and prepayment penalties incurred related to payments made on our term debt resulting from the sales of our investment in Windset and the Eat Smart Disposition, combined with higher interest rates and an increase in deferred financing costs incurred as a result of our debt refinancing in December 2020.

The increase in interest expense during fiscal year 2021 compared to fiscal year 2020 was primarily the result of (i) an increased interest rate, due to the Company's increased Total Leverage Ratio (as defined in the Credit Agreement), combined with our debt refinancing in December 2020 at higher interest rates, (ii) an increase in deferred financing costs from those incurred in connection with the Company's amendments to the Credit Agreement since May 31, 2020 combined with our debt refinancing in December 2020, and (iii) an increase in total outstanding debt from $190.3 million as of May 31, 2020 to $193.9 million as of May 30, 2021.

Transition Services Income

In fiscal year 2022 the Company earned $5.8 million of transition services income related to transition services provided to Taylor Farms related to the Eat Smart Disposition which is meant to defray costs incurred to provide the transition services which are reported within Selling, general and administrative costs.

Loss on Debt Refinancing

The loss on debt refinancing was due to a write-off of unamortized debt issuance costs in connection with the Company refinancing its debt in December 2020.

Other Income (Expense), net

The increase in other income (expense), net for fiscal years 2022 and 2021 compared to the respective prior periods was primarily the result of the change in the fair value of our interest rate swap liability.

Income Tax Benefit

The change in income tax benefit for fiscal year 2022 compared to fiscal year 2021 was primarily due to the Company's increase in net loss before income taxes from continuing operations and the Company's effective tax rate for fiscal year 2022 changed from a tax provision benefit of 16.59% to a tax provision benefit of 11.20% in comparison to fiscal year 2021 after adjustment for discontinued operations. The decrease in the effective tax rate for fiscal year 2022 was primarily due to a significant valuation allowance increase and the impairment of Yucatan Foods goodwill.

The effective tax rate for fiscal year 2021 changed from a tax provision benefit of 28.63% to a tax provision benefit of 16.59% in comparison to fiscal year 2020 after adjustment for discontinued operations. The decrease in the income tax benefit for fiscal year 2021 was primarily due to a significant decrease in the Company's loss before tax from continuing operations, and the increase in change in valuation allowance which offsets federal and state research and development credits, and $2.8 million of NOL carryback benefit applied only for fiscal year 2020.

Liquidity and Capital Resources

As of May 29, 2022, the Company had cash and cash equivalents of $1.6 million, a net increase of $0.3 million from $1.3 million at May 30, 2021.

Cash Flows from Operating Activities

Net cash used in operating activities during fiscal year 2022 was $24.4 million compared to $15.0 million of net cash provided by operating activities during fiscal year 2021. The primary uses of net cash in operating activities during fiscal year 2022 were (1) a $97.4 million net loss, (2) an $6.6 million net increase in working capital, and (3) a $6.9 million reduction in deferred taxes. These uses of cash were partially offset by (1) $60.8 million impairment of goodwill and intangible assets, (2) $20.5 million of depreciation/amortization and stock based compensation expense, and (3) $5.5 million Loss on sale of Eat Smart and loss on disposal of property and equipment related to restructuring, net.

The primary factors for the increase in working capital during the fiscal year ended 2022, was a $6.0 million increase in inventory driven by production in our Avocado Products division and to support the sales growth at Lifecore, a $6.1 million increase in accounts receivable driven by sales increases and timing of customer payments, and a $3.2 million net increase in accrued compensation and other accrued liabilities driven by severance accruals, partially offset by an increase in accounts payable of $9.3 million related to the increase in inventory and timing of payments.

Cash Flows from Investing Activities

Net cash provided by investing activities during fiscal year 2022 was $81.8 million, compared to $10.9 million of net cash used in investing activities for fiscal year 2021. Net cash provided by investing activities during fiscal year 2022 was primarily due to the receipt of $73.5 million related to the Eat Smart Disposition (partially offset by a $9.8 million working capital adjustment and cash expenses related to the Eat Smart Disposition), $45.1 million related to the sale of the Company's investment in Windset, partially offset by the purchase of $28.1 million of equipment to support the growth of the Company's Lifecore and Curation Foods businesses.

Cash Flows from Financing Activities

Net cash used in financing activities during fiscal year 2022 was $57.0 million compared to $3.4 million for the same period last year. The net cash used in financing activities during fiscal year 2022 was primarily due to $86.4 million of debt pay downs under the Company's term loan, partially offset by a $20.0 million draw on the term loan multi draw accordion feature to fund Lifecore capital expenditures, and an $11.0 million net draw down on the Company's line of credit.

Capital Expenditures

Landec incurred $28.1 million of capital expenditures during fiscal year 2022, which were primarily represented by continued facility modifications and expansions and equipment purchases intended to increase production capacity to support the growth and increased production efficiency of the Lifecore and Curation Foods businesses. Capital expenditures incurred during fiscal year 2021 were $23.8 million. During the fiscal year ended 2022, capital expenditures for Lifecore and Curation Foods were $23.6 million and $2.7 million, respectively, and capital expenditures for discontinued operations were $1.8 million.

Debt

On September 23, 2016, the Company entered into a Credit Agreement with JPMorgan, BMO, and City National Bank, as lenders (collectively, the "Lenders"), and JPMorgan as administrative agent, pursuant to which the Lenders provided the Company with a $100.0 million revolving line of credit (the "Revolver") and a $50.0 million term loan facility (the "Term Loan"), guaranteed by each of the Company's direct and indirect subsidiaries and secured by substantially all of the Company's assets, with the exception of the Company's investment in Windset.

On November 30, 2018, the Company entered into the Fourth Amendment to the Credit Agreement, which increased the Term Loan to $100.0 million and the Revolver to $105.0 million.

On October 25, 2019, the Company entered into the Sixth Amendment to the Credit Agreement, which increased the Term Loan to $120.0 million and decreased the revolver to $100.0 million. Both the Revolver and the Term Loan mature on October 25, 2022, with the Term Loan requiring quarterly principal payments of $3.0 million and the remainder continuing to be due at maturity.

On March 19, 2020, the Company entered into the Seventh Amendment to the Credit Agreement (the "Seventh Amendment"), which among other changes, retroactively increased the maximum Total Leverage Ratio (as defined in the Credit Agreement as the ratio of the Company's total indebtedness on such date to the Company's consolidated EBITDA for the period of four consecutive fiscal quarters ended on or most recently prior to such date) to 5.75 to 1.00 for the fiscal quarter ended February 23, 2020, which decreases back to 5.00 to 1.00 for the fiscal quarter ending May 31, 2020. The maximum Total Leverage Ratio thereafter decreases by 25 basis points each subsequent fiscal quarter thereafter, until it reaches 3.50 for the fiscal quarter ending November 28, 2021, and then remains fixed through maturity. The Seventh Amendment also introduced additional financial covenants that remain in effect through May 31, 2020, including minimum cumulative monthly Unadjusted EBITDA thresholds and maximum capital expenditures, as well as additional reporting requirements and frequencies. Interest on both the Revolver and the Term Loan continues to be based upon the Company's Total Leverage Ratio, at a per annum rate of either (i) the prime rate plus a spread of between 0.25% and 3.00% or (ii) the Eurodollar rate plus a spread of between 1.25% and 4.00%.

On July 15, 2020, the Company entered into the Eighth Amendment to the Credit Agreement (the "Eighth Amendment"), which among other things, (i) modified the definition of EBITDA to increase the limit on permitted exclusions for certain unusual, extraordinary or one-time cash items for each fiscal quarter ending on or after February 28, 2021, to a maximum of 20% of EBITDA, and (ii) restricted the Company from making Capital Expenditures over certain thresholds. Interest continues to be based on the Company's Total Leverage Ratio, at a revised per annum Applicable Rate of either (i) the prime rate plus a spread of between 0.75% and 3.50% or (ii) the Eurodollar rate plus a spread of between 1.75% and 4.50%, plus, in each case, a commitment fee, as applicable, of between 0.15% and 0.55%, as further described in the Eighth Amendment.

On December 31, 2020, the Company refinanced its existing Term Loan and Revolver by entering into two separate Credit Agreements (the "New Credit Agreements") with BMO and Goldman Sachs Specialty Lending Group, L.P. ("Goldman") and Guggenheim Credit Services, LLC ("Guggenheim"), as lenders (collectively, the "Refinance Lenders"). Pursuant to the credit agreement related to the revolving credit facility, BMO has provided the Company, Curation Foods and Lifecore, as co-borrowers, with an up to $75.0 million revolving line of credit (the "Refinance Revolver") and serves as administrative agent of the Refinance Revolver. Pursuant to the credit agreement related to the term loan, Goldman and Guggenheim have provided the Company, Curation Foods and Lifecore, as co-borrowers, with an up to $170.0 million term loan facility (split equally between Goldman and Guggenheim) (the "Refinance Term Loan") and Goldman serves as administrative agent of the Refinance Term Loan. The Refinance Revolver and Refinance Term Loan are guaranteed, and secured by, substantially all of the Company's and the Company's direct and indirect subsidiaries' assets.

The Refinance Term Loan matures on December 31, 2025. The Refinance Revolver matures on December 31, 2025 or, if the Refinance Term Loan remains outstanding on such date, ninety (90) days prior to the maturity date of the Refinance Term Loan (on October 2, 2025).

The Refinance Term Loan provides for principal payments by the Company of 5% per annum, payable quarterly in arrears in equal installments, commencing on March 30, 2023, with the remainder due at maturity.

Interest on the Refinance Revolver is based upon the Company's average availability, at a per annum rate of either (i) LIBOR rate plus a spread of between 2.00% and 2.50% or (ii) base rate plus a spread of between 1.00% and 1.50%, plus a commitment fee, as applicable, of 0.375%. Interest on the Refinance Term Loan is at a per annum rate based on either (i) the base rate plus a spread of 7.50% or (ii) the LIBOR rate plus a spread of 8.50%. The Refinance Term Loan Credit Agreement also provides that in the event of a prepayment of any amount other than the scheduled installments within twelve months after the closing date, a penalty will be assessed equal to the aggregate amount of interest that would have otherwise been payable from date of prepayment event until twelve months after the closing date plus 3% of the amount prepaid.

The New Credit Agreements provide the Company the right to increase the revolver commitments under the Refinance Revolver, subject to the satisfaction of certain conditions (including consent from BMO), by obtaining additional commitments from either BMO or another lending institution at an amount of up to $15.0 million.

The New Credit Agreements contain customary financial covenants and events of default under which the obligations thereunder could be accelerated and/or the interest rate increased in specified circumstances.

In connection with the New Credit Agreements, the Company incurred debt issuance costs from the lender and third-parties of $10.3 million.

Concurrent with the close of the New Credit Agreements, the Company repaid all outstanding borrowings under the current Credit Agreement, and terminated the Credit Agreement. In connection with the repayment of borrowings under the Credit Agreement, the Company recognized a loss in fiscal year 2021 of $1.1 million, as a result of the non-cash write-off of unamortized debt issuance costs related to the refinancing under the New Credit Agreements.

In April 2022 the Company amended the New Credit Agreement to make available again $20.0 million of term debt that that had been previously repaid. In connection with this amendment, the Company incurred debt issuance costs from the lender of $0.7 million.

As of May 29, 2022, (i) $40.0 million was outstanding on the Refinance Revolver, at an interest rate of 3.00%, (ii) $103.7 million was outstanding on the Refinance Term Loan, at an interest rate of 9.5%, and (iii) the Company was in compliance with all financial covenants and had no events of default under the New Credit Agreements.

Contractual Obligations

The Company's material contractual obligations for the next five years and thereafter as of May 29, 2022, are as follows:

(in thousands)	Due in Fiscal Year Ended May						
Obligation	Total	2023	2024	2025	2026	2027	Thereafter
Debt obligations	$ 143,712	$ 2,125	$ 8,469	$ 8,422	$ 124,696	$ —	$ —
Interest payments associated with deb obligations	40,775	11,185	10,627	9,839	9,124	—	—
Finance leases	3,485	3,475	10	—	—	—	—
Operating leases	13,705	2,330	2,243	2,002	1,928	1,409	3,793
Purchase commitments	54,887	5,969	5,985	5,604	5,604	5,604	26,121
Total	$ 256,564	$ 25,084	$ 27,334	$ 25,867	$ 141,352	$ 7,013	$ 29,914

Debt obligations reflect the principal amounts outstanding on the Term Loan and the Revolver at fiscal year-end. The interest payment amounts above are based on principal amounts and contractual rates at fiscal year-end. See Note 6 – Debt in the notes to our consolidated financial statements for further information on the Company's loans.

The Company's future capital requirements will depend on numerous factors, including the progress of its research and development programs; the continued development of marketing, sales and distribution capabilities; the ability of the Company to establish and maintain new licensing arrangements; the costs associated with employment-related claims; any decision to pursue additional acquisition opportunities; weather conditions that can affect the supply and price of produce, 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 capital needs, the Company would be required to seek additional funding through other arrangements with collaborative partners, additional 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.

The Company believes that its cash from operations, along with existing cash and cash equivalents and availability under its line of credit will be sufficient to finance its operational and capital requirements for at least the next twelve months.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Exposure

Our net interest expense is sensitive to changes in the general level of interest rates. In this regard, changes in interest rates will affect our net interest expense, as well as the fair value of our debt.

On December 31, 2020, the Company refinanced its existing Term Loan and Revolver by entering into two separate Credit Agreements (the "New Credit Agreements") with BMO and Goldman Sachs Specialty Lending Group, L.P. ("Goldman") and Guggenheim Credit Services, LLC ("Guggenheim"), as lenders (collectively, the "Refinance Lenders"). Pursuant to the credit agreement related to the revolving credit facility, BMO has provided the Company, Curation Foods and Lifecore, as co-borrowers, with an up to $75.0 million revolving line of credit (the "Refinance Revolver") and serves as administrative agent of the Refinance Revolver. Pursuant to the credit agreement related to the term loan, Goldman and Guggenheim have provided the Company, Curation Foods and Lifecore, as co-borrowers, with an up to $170.0 million term loan facility (split equally between Goldman and Guggenheim) (the "Refinance Term Loan") and Goldman serves as administrative agent of the Refinance Term Loan. The Refinance Revolver and Refinance Term Loan are guaranteed, and secured by, substantially all of the Company's and the Company's direct and indirect subsidiaries' assets.

Interest on the Refinance Revolver is based upon the Company's average availability, at a per annum rate of either (i) LIBOR rate plus a spread of between 2.00% and 2.50% or (ii) base rate plus a spread of between 1.00% and 1.50%, plus a commitment fee, as applicable, of 0.375%. Interest on the Refinance Term Loan is at a per annum rate based on either (i) the base rate plus a spread of 7.50% or (ii) the LIBOR rate plus a spread of 8.50%.

A hypothetical 100 basis point increase or decrease in weighted average interest rates under our Refinance Revolver, based upon the face value of such instruments, would increase our interest expense by approximately $0.4 million over a twelve-month period.

Foreign Currency Exposure

Our Mexican-based operations transacts a portion of the business in Mexican pesos. Funds are transferred by our corporate office to Mexico to satisfy local Mexican cash needs. We do not currently use derivative instruments to hedge fluctuations in the Mexican peso to U.S. dollar exchange rates. Total impact from foreign currency translation is not significant.

Item 8. *Financial Statements and Supplementary Data*

The information contained in Part IV, Item 15 included elsewhere in this Annual Report on Form 10-K is incorporated herein by reference.

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

Not applicable.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-K. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon the evaluation, our principal executive officer and principal financial officer concluded that due to a material weakness in our internal control over financial reporting as described in the "Management's Report on Internal Control over Financial Reporting", our disclosure controls and procedures were not effective as of May 29, 2022.

As further described below, the Company's management is in the process of developing plans to remediate the material weakness identified, but it has not been remediated as of the date of filing of this Annual Report on Form 10-K. Despite the existence of this material weakness, our management believes that the consolidated financial statements included in this Annual Report on Form 10-K fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles.

Changes in Internal Controls over Financial Reporting

Other than the identification of the material weakness as described in "Management's Report on Internal Control over Financial Reporting", there have been no changes in our system of internal control over financial reporting during the quarter ended May 29, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as defined in Rule 13(a)-15(f) under the Securities Exchange Act of 1934, as amended). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and presentation of consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective, these controls can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of May 29, 2022. In making this assessment, which was conducted under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013). As part of our annual assessment, management has concluded that we did not design and operate effective internal controls over the completeness and accuracy of the accounting for non-standard transactions, that would include discontinued operations and restructuring activity. Specifically, we did not design controls for non-standard transactions to ensure the accurate presentation of non-standard transactions, which would include discontinued operations and certain restructuring costs in our financial statements. This resulted in a material error in our interim financial information as presented in and filed with our Quarterly Report on Form 10-Q for our fiscal third quarter ended February 27, 2022. As a result, we have restated the impacted financial information and corrected these errors in Note 1 to our consolidated financial statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. We have determined that a gap exists in the design and operations of our controls related to the accounting and classification of certain non-standard transactions, including discontinued operations and certain restructuring costs, which constitutes a material weakness.

As discussed in Part II, Item 8. Financial Statements and Supplementary Data, Note 1 to our consolidated financial statements, the Company is restating (the "Restatement") our previously issued (i) unaudited consolidated balance sheet as of February 27, 2022 and May 30, 2021, (ii) unaudited consolidated statements of comprehensive (loss) income for the three and nine months ended February 27, 2022, (iii) unaudited consolidated statement of cash flows for the nine months ended February 27, 2022, (iv) unaudited consolidated statement of changes in stockholders' equity, and unaudited notes related thereto, as previously reported in our Quarterly Report on Form 10-Q for the third quarter period ended February 27, 2022 (the "Prior Financial Statements").

The Restatement results from corrections by the Company primarily related to:

(i) the classification of certain expenses and the recording of accruals related to the Company's recent disposition activities and the Company's corporate transition of Landec Corporation to Lifecore Biomedical, which were previously classified as restructuring expenses from continuing operations in our Prior Financial Statements, but which the Company intends to correct to classify as selling, general and administrative expenses, and cost of goods sold within continuing operations;

(ii) the treatment of the fees received and costs incurred by the Company pursuant to the transition services agreement related to the sale of the Curation Foods' Eat Smart business (the "TSA"), for which the Company had previously recognized the net of the TSA fees received and costs incurred as loss on sale of Eat Smart within discontinued operations, but for which the Company intends to correct to classify the TSA fees received by the Company within transition services income and the TSA costs incurred by the Company as selling, general and administrative expenses within continuing operations; and

(iii) the classification of certain costs and expenses related to the Company's recent disposition activities and the Company's corporate transition of Landec Corporation to Lifecore Biomedical, which were previously classified as loss on sale of Eat Smart within discontinued operations, but which the Company intends to correct to classify as selling, general and administrative expenses within continuing operations.

Based upon our current assessment, which considered the material weakness described above, our management concluded that our internal control over financial reporting was not effective at May 29, 2022.

Management's Plan for Remediation of the Material Weakness

In response to the material weakness described above, with the oversight of the Audit Committee of our Board of Directors, management has corrected the error in its interim financial statements. Management is currently evaluating remediation activities related to our non-standard transaction processes that will include, but are not limited to the following (i) enhancing and developing a more comprehensive review process and monitoring controls related to non-standard transactions and (ii) continuing to provide training and development to our accounting team related to non-standard transactions, including discontinued operations and restructuring activity.

The remediation efforts are intended to both address the identified material weakness and to enhance our overall financial control environment and will be subject to ongoing senior management review, as well as Audit Committee oversight. We plan to complete this remediation process as quickly as possible. Management is committed to continuous improvement of our internal control over financial reporting and will continue to diligently review our internal control over financial reporting.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on our internal control over financial reporting, which appears in Part IV, Item 15 of this Annual Report on Form 10-K, and is incorporated herein by reference.

Item 9B. ***Other Information***

None.

Item 9C. ***Disclosure Regarding Foreign Jurisdictions that Prevent Inspections***

Not applicable.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

This information required by this item will be contained in the Registrant's definitive proxy statement or in an amendment to this Annual Report on Form 10-K to be filed with the Securities and Exchange Commission not later than September 26, 2022 (120 days after the Registrant's fiscal year end covered by this Annual Report on Form 10-K) and is incorporated herein by reference.

Item 11. ***Executive Compensation***

This information required by this item will be contained in the Registrant's definitive proxy statement or in an amendment to this Annual Report on Form 10-K to be filed with the Securities and Exchange Commission not later than September 26, 2022 (120 days after the Registrant's fiscal year end covered by this Annual Report on Form 10-K) and is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

This information required by this item will be contained in the Registrant's definitive proxy statement or in an amendment to this Annual Report on Form 10-K to be filed with the Securities and Exchange Commission not later than September 26, 2022 (120 days after the Registrant's fiscal year end covered by this Annual Report on Form 10-K) and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions and Director Independence***

This information required by this item will be contained in the Registrant's definitive proxy statement or in an amendment to this Annual Report on Form 10-K to be filed with the Securities and Exchange Commission not later than September 26, 2022 (120 days after the Registrant's fiscal year end covered by this Annual Report on Form 10-K) and is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

This information required by this item will be contained in the Registrant's definitive proxy statement or in an amendment to this Annual Report on Form 10-K to be filed with the Securities and Exchange Commission not later than September 26, 2022 (120 days after the Registrant's fiscal year end covered by this Annual Report on Form 10-K) and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) 1. Consolidated Financial Statements of Landec Corporation

2. All schedules provided for in the applicable accounting regulations of the Securities and Exchange Commission have been omitted since they pertain to items which do not appear in the financial statements of Landec Corporation and its subsidiaries or to items which are not significant or to items as to which the required disclosures have been made elsewhere in the financial statements and supplementary notes and such schedules.

The exhibits listed in the accompanying Index of Exhibits are filed or incorporated by reference as part of this report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Landec Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Landec Corporation and subsidiaries (the Company) as of May 29, 2022 and May 30, 2021, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity and cash flows for each of the three years in the period ended May 29, 2022, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at May 29, 2022 and May 30, 2021, and the results of its operations and its cash flows for each of the three years in the period ended May 29, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of May 29, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated September 13, 2022 expressed an adverse opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of Goodwill and Trademarks/tradenames with Indefinite lives

Description of the Matter	At May 29, 2022, the Company’s goodwill was $13.9 million and trademarks/tradenames with indefinite lives was $8.4 million. The carrying values of the Company’s Yucatan reporting unit’s goodwill and trademarks/tradenames with indefinite lives were $0 million and $3.7 million, respectively at May 29, 2022. As discussed in Note 1 of the consolidated financial statements, goodwill and trademarks/tradenames with indefinite lives are assessed by the Company’s management for impairment at least annually, in the fiscal fourth quarter, unless there are indications of impairment at other points throughout the year. Goodwill is tested for impairment at the reporting unit level. The Company measured the fair value of the goodwill using an income approach and the fair value of trademarks/tradenames using a royalty savings method. In identifying an excess of the carrying value over fair value, the Company recorded an impairment of $20.0 million to the carrying amount of goodwill and $8.7 million to the carrying amount of trademarks/tradenames with indefinite lives related to the Yucatan reporting unit for the year ended May 29, 2022.

Auditing the Company's annual impairment test related to the Yucatan reporting unit's goodwill and trademarks/tradenames with indefinite lives is complex and highly judgmental and required the involvement of our valuation specialist due to the significant judgment in estimating their fair values. In particular, the fair value estimate of the Yucatan reporting unit's goodwill is sensitive to assumptions such as net sales growth rates, gross margins and discount rate. The Yucatan reporting unit's trademarks/tradenames with indefinite lives are sensitive to assumptions related to the discount rate. These assumptions are forward-looking and sensitive to and affected by expected future market or economic conditions and industry and company-specific qualitative factors.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's impairment review process related to the goodwill and trademarks/tradenames with indefinite lives. We tested controls over management's review of the data used in their valuation models and review of the significant assumptions described above.

To test the estimated fair value of the Yucatan reporting unit and trademarks/tradenames with indefinite lives, we performed audit procedures that included, among others, assessing the methodologies, testing the significant assumptions discussed above used to develop the estimates of future earnings and cash flows and testing the completeness and accuracy of the underlying data. We compared the significant assumptions used by management to current industry and economic trends, the Company's historical results and other guideline companies within the same industry and evaluated how changes in the Company's business may affect the significant assumptions. We assessed the historical accuracy of management's estimates and performed sensitivity analyses of significant assumptions to evaluate the change in the fair value of the Yucatan reporting unit and trademarks/tradenames with indefinite lives resulting from changes in these assumptions. We involved our valuation specialists to assist in reviewing the valuation methodology and the royalty and discount rate assumptions. For trademarks/tradenames with indefinite lives, where applicable, we also assessed whether the assumptions used were consistent with those used in the goodwill impairment review process.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2008.

San Francisco, California

September 13, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Landec Corporation

Opinion on Internal Control over Financial Reporting

We have audited Landec Corporation and subsidiaries' internal control over financial reporting as of May 29, 2022, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, Landec Corporation and subsidiaries' (the Company) has not maintained effective internal control over financial reporting as of May 29, 2022, based on the COSO criteria.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management did not design and operate effective controls over the completeness and accuracy of accounting for non-standard transactions, which include discontinued operations and certain restructuring costs.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of May 29, 2022 and May 30, 2021, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity and cash flows for each of the three years in the period ended May 29, 2022, and the related notes. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the May 29, 2022 consolidated financial statements, and this report does not affect our report dated September 13, 2022 which expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Francisco, California
September 13, 2022

LANDEC CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	May 29, 2022	*As restated* May 30, 2021
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,643	$ 1,159
Accounts receivable, less allowance for credit losses	48,172	41,430
Inventories	66,845	63,076
Prepaid expenses and other current assets	7,052	5,038
Current assets, discontinued operations	—	37,618
Total Current Assets	123,712	148,321
Property and equipment, net	130,435	120,286
Operating lease right-of-use assets	8,580	17,098
Goodwill	13,881	33,916
Trademarks/tradenames, net	8,400	17,100
Customer relationships, net	7,150	8,532
Other assets	3,002	3,531
Other assets, discontinued operations	—	154,140
Total Assets	$ 295,160	$ 502,924
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 15,802	$ 16,298
Accrued compensation	9,238	7,754
Other accrued liabilities	7,647	3,955
Current portion of lease liabilities	5,026	1,600
Deferred revenue	919	637
Line of credit	40,000	29,000
Current portion of long-term debt, net	599	—
Current liabilities, discontinued operations	—	42,644
Total Current Liabilities	79,231	101,888
Long-term debt, net	97,579	164,902
Long-term lease liabilities	9,983	20,359
Deferred taxes, net	232	6,140
Other non-current liabilities	190	2,870
Non-current liabilities, discontinued operations	—	3,981
Total Liabilities	187,215	300,140
Stockholders' Equity:		
Common stock, $0.001 par value; 50,000 shares authorized; 29,513 and 29,333 shares issued and outstanding at May 29, 2022 and May 30, 2021, respectively	30	29
Additional paid-in capital	167,352	165,533
Retained earnings (accumulated deficit)	(58,851)	38,580
Accumulated other comprehensive loss	(586)	(1,358)
Total Stockholders' Equity	107,945	202,784
Total Liabilities and Stockholders' Equity	$ 295,160	$ 502,924

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	May 29, 2022	May 30, 2021	May 31, 2020
Product sales	$ 185,786	$ 171,546	$ 160,066
Cost of product sales	135,416	121,075	120,679
Gross profit	50,370	50,471	39,387
Operating costs and expenses:			
Research and development	7,841	7,423	7,582
Selling, general and administrative	46,127	37,660	40,674
Impairment of goodwill and intangible assets	28,735	—	12,953
Legal settlement charge	—	1,763	—
Restructuring costs	8,961	3,759	4,054
Total operating costs and expenses	91,664	50,605	65,263
Operating loss	(41,294)	(134)	(25,876)
Interest income	81	48	72
Interest expense, net	(17,357)	(10,387)	(4,646)
Transition services income	5,814	—	—
Loss on debt refinancing	—	(1,110)	—
Other income (expense), net	641	111	(195)
Net loss from continuing operations before taxes	(52,115)	(11,472)	(30,645)
Income tax benefit	5,839	1,903	8,774
Net loss from continuing operations	(46,276)	(9,569)	(21,871)
Discontinued operations:			
Loss from discontinued operations	(51,276)	(28,994)	(20,662)
Income tax benefit	121	5,898	4,342
Loss from discontinued operations, net of tax	(51,155)	(23,096)	(16,320)
Net loss	$ (97,431)	$ (32,665)	$ (38,191)
Basic net loss per share:			
Loss from continuing operations	$ (1.57)	$ (0.33)	$ (0.75)
Loss from discontinued operations	(1.74)	(0.79)	(0.56)
Total basic net loss per share	$ (3.31)	$ (1.12)	$ (1.31)
Diluted net loss per share:			
Loss from continuing operations	$ (1.57)	$ (0.33)	$ (0.75)
Loss from discontinued operations	(1.74)	(0.79)	(0.56)
Total diluted net loss per share	$ (3.31)	$ (1.12)	$ (1.31)
Shares used in per share computation:			
Basic	29,466	29,294	29,162
Diluted	29,466	29,294	29,162

See accompanying notes to the consolidated financial statements.

LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In thousands)

	Year Ended		
	May 29, 2022	May 30, 2021	May 31, 2020
Net loss	$ (97,431)	$ (32,665)	$ (38,191)
Other comprehensive (loss) income, net of tax:			
Net unrealized gains (losses) on interest rate swaps, (net of tax effect of ($430), $(445), and $878)	772	1,450	(2,872)
Other comprehensive (loss) income, net of tax	772	1,450	(2,872)
Total comprehensive loss	$ (96,659)	$ (31,215)	$ (41,063)

See accompanying notes to the consolidated financial statements.

LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balance at May 26, 2019	29,102	$ 29	$ 160,341	$ 109,710	$ 64	$ 270,144
ASC 842 transition adjustment	—	—	—	(274)	—	(274)
Issuance of stock under stock plans, net of shares withheld	122	—	30	—	—	30
Taxes paid by Company for employee stock plans	—	—	(212)	—	—	(212)
Stock-based compensation	—	—	2,419	—	—	2,419
Net loss	—	—	—	(38,191)	—	(38,191)
Other comprehensive loss, net of tax	—	—	—	—	(2,872)	(2,872)
Balance at May 31, 2020	29,224	29	162,578	71,245	(2,808)	231,044
Issuance of stock under stock plans, net of shares withheld	109	—	—	—	—	—
Taxes paid by Company for employee stock plans	—	—	(405)	—	—	(405)
Stock-based compensation	—	—	3,360	—	—	3,360
Net loss	—	—	—	(32,665)	—	(32,665)
Other comprehensive income, net of tax	—	—	—	—	1,450	1,450
Balance at May 30, 2021	29,333	29	165,533	38,580	(1,358)	202,784
Issuance of stock under stock plans, net of shares withheld	180	1	—	—	—	1
Taxes paid by Company for employee stock plans	—	—	(789)	—	—	(789)
Stock-based compensation	—	—	2,608	—	—	2,608
Net loss	—	—	—	(97,431)	—	(97,431)
Other comprehensive income, net of tax	—	—	—	—	772	772
Balance at May 29, 2022	29,513	$ 30	$ 167,352	$ (58,851)	$ (586)	$ 107,945

See accompanying notes to the consolidated financial statements.

LANDEC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended		
	May 29, 2022	May 30, 2021	May 31, 2020
Cash flows from operating activities:			
Net loss	$ (97,431)	$ (32,665)	$ (38,191)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Impairment of goodwill and intangible assets	60,792	—	12,953
Depreciation, amortization of intangibles, debt costs and right-of-use assets	17,884	19,867	18,838
Deferred taxes	(6,884)	(7,893)	(5,440)
Loss on disposal of property and equipment related to restructuring, net	5,185	10,143	14,802
Stock-based compensation expense	2,608	3,360	2,419
Loss on sale of Eat Smart	336	—	—
Net loss on disposal of property and equipment held and used	152	61	143
Provision (benefit) for expected credit losses	(14)	418	(284)
Change in investment in non-public company, fair value	—	11,800	4,200
Loss on debt refinancing	—	1,110	—
Pacific Harvest note receivable reserve	—	—	1,202
Change in contingent consideration liability	—	—	(500)
Other, net	(426)	(74)	195
Changes in current assets and current liabilities:			
Accounts receivable, net	(6,138)	5,775	(6,357)
Inventory	(5,960)	(3,352)	(12,179)
Prepaid expenses and other current assets	(602)	7,941	(6,815)
Accounts payable	9,343	(5,982)	(1,249)
Accrued compensation	(2,546)	3,270	(1,894)
Other accrued liabilities	(680)	460	1,263
Deferred revenue	(18)	778	(147)
Net cash (used in) provided by operating activities	(24,399)	15,017	(17,041)
Cash flows from investing activities:			
Proceeds from the Sale of Eat Smart	73,500	—	—
Eat Smart sale net working capital adjustment and cash sale expenses	(9,839)	—	—
Proceeds from sale of investment in non-public company	45,100	—	—
Purchases of property and equipment	(28,134)	(23,769)	(26,686)
Proceeds from sales of property and equipment	1,141	12,913	2,434
Proceeds from collections of notes receivable	—	—	364
Net cash provided by (used in) investing activities	81,768	(10,856)	(23,888)
Cash flows from financing activities:			
Proceeds from long-term debt	20,000	170,000	27,500
Payments on long-term debt	(86,411)	(114,130)	(11,125)
Proceeds from lines of credit	55,111	100,000	119,300
Payments on lines of credit	(44,111)	(148,400)	(93,900)
Payments for debt issuance costs	(821)	(10,484)	(1,576)
Taxes paid by Company for employee stock plans	(789)	(405)	(212)
Proceeds from sale of common stock	—	—	30
Net cash (used in) provided by financing activities	(57,021)	(3,419)	40,017
Net increase (decrease) in cash, cash equivalents and restricted cash	348	742	(912)
Cash, cash equivalents and restricted cash, beginning of period	1,295	553	1,465
Cash, cash equivalents and restricted cash, end of period	$ 1,643	$ 1,295	$ 553
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$ 16,888	$ 13,223	$ 10,130
Cash paid during the period for income taxes, net of refunds received	$ 441	$ (7,680)	$ (1,124)
Supplemental disclosure of non-cash investing and financing activities:			
Purchases of property and equipment on trade vendor credit	$ 2,260	$ 4,724	$ 2,820

See accompanying notes to the consolidated financial statements.

LANDEC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies

Organization

Landec Corporation and its subsidiaries ("Landec" or the "Company") design, develop, manufacture, and sell differentiated products for food and biomaterials markets, and license technology applications to partners.

Landec's biomedical company, Lifecore Biomedical, Inc. ("Lifecore"), is a fully integrated contract development and manufacturing organization ("CDMO") that offers highly differentiated capabilities in the development, fill and finish of sterile, injectable-grade pharmaceutical products in syringes and vials. As a leading manufacturer of premium, injectable grade Hyaluronic Acid, Lifecore brings 37 years of expertise as a partner for global and emerging biopharmaceutical and biotechnology companies across multiple therapeutic categories to bring their innovations to market. Lifecore recognizes revenue in two different product categories, CDMO and Fermentation.

Landec's natural food company, Curation Foods, Inc. ("Curation Foods"), is focused on innovating and distributing plant-based foods with 100% clean ingredients to retail, club and foodservice channels throughout North America. Its products are sold in natural food, conventional grocery and mass retail stores, primarily in the United States and Canada. The company categorizes revenue in three categories, avocado products, olive oil and wine vinegars and technology which reports revenues for BreatheWay patented supply chain solutions.

Eat Smart Sale and Discontinued Operations

On December 13, 2021 (the "Closing Date"), Landec and Curation Foods (together, the "Sellers"), and Taylor Farms Retail, Inc. ("Taylor Farms" and together with the Sellers, the "Parties") completed the sale (the "Eat Smart Disposition") of Curation Foods' Eat Smart business, including its salad and cut vegetable businesses (the "Business"), pursuant to the terms of an asset purchase agreement executed by the Parties on December 13, 2021 (the "Asset Purchase Agreement"). Pursuant to the Asset Purchase Agreement, Taylor Farms acquired the Business for a purchase price of $73.5 million, subject to post-closing adjustments based upon negotiation of the net working capital balances at the Closing Date. As part of the Eat Smart Disposition, Taylor Farms acquired, among other assets and liabilities related to the Business, the manufacturing facility and warehouses (and corresponding equipment) located in Bowling Green, Ohio and Guadalupe, California, as well as inventory, accounts receivable, accounts payable, intellectual property and information related to the Business, and assumed certain liabilities and executory obligations under the Company's and Curation Foods' outstanding contracts related to the Business, in each case, subject to the terms of the Asset Purchase Agreement.

Following the Eat Smart Disposition, Curation Foods retains its *O* Olive Oil & Vinegar ("*O*") and Yucatan Foods businesses and its rights and interests in BreatheWay, and the Company retains its Lifecore business.

During the third quarter of its fiscal year, the Company used net proceeds from the Eat Smart Disposition to repay $67.9 million in borrowings under the Company's existing credit agreements.

The accounting requirements for reporting the Eat Smart business as a discontinued operation were met when the Eat Smart Disposition was completed on the Closing Date. Accordingly, the consolidated financial statements and notes to the consolidated financial statements reflect the results of the Eat Smart business as a discontinued operation for all periods presented. A loss of $0.3 million from the Eat Smart Disposition is included in Loss from discontinued operations, net of tax, within the Consolidated Statements of Operations during the fiscal year ended May 29, 2022. Refer to Note 12 - Discontinued Operations for additional information.

Basis of Presentation and Consolidation

The consolidated financial statements are presented on the accrual basis of accounting in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") and include the accounts of Landec Corporation and its subsidiaries, Curation Foods and Lifecore. All material inter-company transactions and balances have been eliminated.

The Company's fiscal year is the 52- or 53-week period that ends on the last Sunday of May with quarters within each year ending on the last Sunday of August, November, and February; however, in instances where the last Sunday would result in a quarter being 12-weeks in length, the Company's policy is to extend that quarter to the following Sunday. A 14th week is included in the fiscal year every five or six years to realign the Company's fiscal quarters with calendar quarters.

Arrangements that are not controlled through voting or similar rights are reviewed under the guidance for variable interest entities ("VIEs"). A company is required to consolidate the assets, liabilities and operations of a VIE if it is determined to be the primary beneficiary of the VIE.

An entity is a VIE and subject to consolidation, if by design: a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including equity holders or b) as a group the holders of the equity investment at risk lack any one of the following three characteristics: (i) the power, through voting rights or similar rights to direct the activities of an entity that most significantly impact the entity's economic performance, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity. The Company reviewed the consolidation guidance and concluded that the equity investment in the non-public company by the Company is not a VIE.

Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. The accounting estimates that require management's most significant and subjective judgments include revenue recognition; loss contingencies; sales returns and credit losses; recognition and measurement of current and deferred income tax assets and liabilities; the assessment of recoverability of long-lived and indefinite lived assets (including intangible assets and goodwill), and inventory; and the valuation and recognition of stock-based compensation.

These estimates involve the consideration of complex factors and require management to make judgments. The analysis of historical and future trends can require extended periods of time to resolve and are subject to change from period to period. The actual results may differ from management's estimates.

Concentrations of Risk

Cash and cash equivalents and trade accounts receivable are financial instruments that potentially subject the Company to concentrations of credit risk. Our Company policy limits, among other things, the amount of credit exposure to any one issuer and to any one type of investment, other than securities issued or guaranteed by the U.S. government. The Company routinely assesses the financial strength of customers and, as a consequence, believes that trade receivables credit risk exposure is limited. Credit losses for bad debt are provided for in the consolidated financial statements through a charge to operations. A valuation allowance is provided for known and anticipated credit losses. The recorded amounts for these financial instruments approximate their fair value.

Several of the raw materials the Company uses to manufacture its products are currently purchased from a single source, including some monomers used to synthesize Intelimer polymers, substrate materials for its breathable membrane products, and raw materials for its HA products.

During the fiscal years ended May 29, 2022, May 30, 2021,and May 31, 2020 the Company had sales concentrations of 10% or greater from two customers, accounting for 16% and 13%, 18% and 13%, and 16% and 11%, respectively. The Company's same two customers had accounts receivable concentrations of 10% or greater, accounting for 26% and 13% of accounts receivable as of May 29, 2022, and 18% and 16%, as of May 30, 2021.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flow expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets' carrying value is adjusted to fair value. The Company regularly evaluates its long-lived assets for indicators of possible impairment.

Financial Instruments

The Company's financial instruments are primarily composed of commercial-term trade payables, debt instruments, and derivative instruments. For short-term instruments, the historical carrying amount approximates the fair value of the instrument. The fair value of long-term debt and lines of credit approximates their carrying value.

Cash Flow Hedges

The Company has entered into interest rate swap agreements to manage interest rate risk. These derivative instruments may offset a portion of the changes in interest expense. The Company designates these derivative instruments as cash flow hedges. The Company accounts for its derivative instruments as either an asset or a liability and carries them at fair value in Other assets or Other non-current liabilities. The accounting for changes in the fair value of the derivative instrument depends on the intended use of the derivative instrument and the resulting designation.

For derivative instruments that hedge the exposure to variability in expected future cash flows and are designated as cash flow hedges, the entire change in the fair value of the hedging instrument is recorded as a component of Accumulated other comprehensive loss ("AOCL") in Stockholders' Equity. Those amounts are subsequently reclassified to earnings in the same line item in the Consolidated Statement of Operations as impacted when the hedged item affects earnings. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions.

During the third quarter of fiscal year 2021, the Company discontinued its hedge accounting prospectively since it was determined that the derivatives are no longer highly effective in offsetting changes in the net investment. The derivatives continue to be carried at fair value in the accompanying Consolidated Balance Sheets with changes in their fair values from the date of discontinued hedge accounting recognized in current period earnings in Other income (expense), net in the Consolidated Statements of Operations. Amounts previously accumulated in AOCL during the period of effectiveness will continue to be realized over the remaining term of the underlying forecasted debt payments as a component of AOCL in Stockholders' Equity.

Accumulated Other Comprehensive Loss

Comprehensive income consists of two components, Net loss and Other comprehensive (loss) income ("OCI"). OCI refers to revenue, expenses, and gains and losses that under GAAP are recorded as a component of stockholders' equity but are excluded from net loss. The Company's OCI consists of net deferred gains and losses on its interest rate swap derivative instruments. The components of AOCL, net of tax, are as follows (in thousands):

	AOCL
Balance as of May 30, 2021	$ (1,358)
Amounts reclassified from OCI	772
Other comprehensive (loss) income, net	772
Balance as of May 29, 2022	$ (586)

The Company expects to reclassify approximately $0.6 million into earnings in the next 12 months.

Based on these assumptions, management believes the fair market values of the Company's financial instruments are not significantly different from their recorded amounts as of May 29, 2022 and May 30, 2021.

Accounts Receivable, Sales Returns and Allowance for Credit Losses

The Company carries its accounts receivable at their face amounts less an allowance for estimated sales returns and credit losses. Sales return allowances are estimated based on historical sales return amounts.

The Company uses the loss rate method to estimate its expected credit losses on trade accounts receivable and contract assets. In order to estimate expected credit losses, the Company assessed recent historical experience, current economic conditions and any reasonable and supportable forecast to identify risk characteristics that are shared within the financial asset. These risk characteristics are then used to bifurcate the loss rate method into risk pools. The risk pools were determined based on the industries in which the Company operates. Historical credit loss for each risk pool is then applied to the current period aging as presented in the identified risk pool to determine the needed reserve allowance. At times when there are no current economic conditions or forecasts that may affect future credit losses, the Company has determined that recent historical experience provides the best basis for estimating credit losses.

The information obtained from assessing historical experience, current economic conditions and reasonable and supportable forecasts were used to identify risk characteristics that can affect future credit loss experience. There were no significant risk characteristics identified in the review of historical experiences or in the review of estimates of current economic conditions and forecasts.

Estimating credit losses based on risk characteristics requires significant judgment by management. Significant judgments include, but are not limited to: assessing current economic conditions and the extent to which they are relevant to the existing characteristics of the Company's financial assets, the estimated life of financial assets, and the level of reliance on historical experience in light of economic conditions. The Company will continually review and update, when necessary, its historical risk characteristics that are meaningful to estimating credit losses, any new risk characteristics that arise in the natural course of business, and the estimated life of its financial assets.

The changes in the Company's allowance for sales returns and credit losses are summarized in the following table (in thousands):

	Balance at beginning of period	Provision (benefit) for expected credit losses	Write offs, net of recoveries	Balance at end of period
Year Ended May 31, 2020	$ 644	$ (460)	$ 2	$ 186
Year Ended May 30, 2021	$ 186	$ 187	$ (288)	$ 85
Year Ended May 29, 2022	$ 85	$ (14)	$ (6)	$ 65

Contract Assets and Liabilities

Contract assets primarily relate to the Company's conditional right to consideration for work completed but not billed at the reporting date. The Company's contract assets as of May 29, 2022, and May 30, 2021, were $10.2 million and $10.6 million, respectively.

Contract liabilities primarily relate to payments received from customers in advance of performance under the contract. The Company's contract liabilities as of May 29, 2022, and May 30, 2021, were $0.9 million and $0.9 million, respectively. Revenue recognized during the fiscal year ended May 29, 2022 that was included in the contract liability balance at the beginning of fiscal year 2022, was $0.4 million.

Revenue Recognition

The Company follows the five step, principles-based model to recognize revenue upon the transfer of promised goods or services to customers and in an amount that reflects the consideration for which the Company expects to be entitled in exchange for those goods or services. Revenue, net of estimated allowances and returns, is recognized when or as the Company satisfies its performance obligations under a contract and control of the product is transferred to the customer.

Lifecore

Lifecore generates revenue from two integrated activities: CDMO and Fermentation. CDMO is comprised of aseptic and development services. Lifecore's standard terms of sale are generally included in its contracts and purchase orders. Shipping and other transportation costs charged to customers are recorded in both revenue and cost of goods sold. Lifecore has elected to account for shipping and handling as fulfillment activities, and not as a separate performance obligation. Lifecore's standard payment terms with its customers generally range from 30 days to 60 days.

Aseptic

Lifecore provides aseptic formulation and filling of syringes and vials with precisely formulated medical grade HA and non-HA materials for injectable products used for medical purposes. In instances where our customers contract with us to aseptically fill syringes or vials with our HA, the goods are not distinct in the context of the contract. Lifecore recognizes revenue for these products at the point in time when legal title to the product is transferred to the customer, which is at the time that shipment is made or upon delivery of the product.

Development Services

Lifecore provides product development services to assist its customers in obtaining regulatory approval for the commercial sale of their drug product. These services include activities such as technology development, material component changes, analytical method development, formulation development, pilot studies, stability studies, process validation and production of materials for use within clinical studies. The Company's customers benefit from the expertise of its scientists who have extensive experience performing such tasks.

Each of the promised goods and services are not distinct in the context of the contract as the goods and services are highly interdependent and interrelated. The services described above are significantly affected by each other because Lifecore would not be able to fulfill its promise by transferring each of the goods or services independently.

Revenues generated from development services arrangements are recognized over time as Lifecore is creating an asset without an alternate use as it is unique to the customer. Furthermore, the Company has an enforceable right to payment for the performance completed to date for its costs incurred in satisfying the performance obligation plus a reasonable profit margin. For each of the development activities performed by Lifecore as described above, labor is the primary input (i.e., labor costs represent the majority of the costs incurred in the completion of the services). The Company determined that labor hours are the best measure of progress as it most accurately depicts the effort extended to satisfy the performance obligation over time.

Fermentation

Lifecore manufactures and sells pharmaceutical-grade sodium hyaluronate ("HA") in bulk form to its customers. The HA produced is distinct as customers are able to utilize the product provided under HA supply contracts when they obtain control. Lifecore recognizes revenue for these products at the point in time when legal title to the product is transferred to the customer, which is at the time that shipment is made or upon delivery of the product to our customer.

Curation Foods

Curation Foods' standard terms of sale, both prior to and following the Eat Smart Disposition, are generally included in its contracts and purchase orders. Revenue is recognized at the time shipment is made or upon delivery as control of the product is transferred to the customer. Shipping and other transportation costs charged to customers are recorded in both revenue and cost of goods sold. Curation Foods has elected to account for shipping and handling as fulfillment activities, and not as a separate performance obligation. Curation Foods' standard payment terms with its customers generally range from 30 days to 90 days. Certain customers may receive cash-based incentives (including: volume rebates, discounts, and promotions), which are accounted for as variable consideration to Curation Foods' performance obligations. Curation Foods estimates these sales incentives based on the expected amount to be provided to its customers and reduces revenues recognized towards its performance obligations. The Company has not historically had and does not anticipate significant changes in its estimates for variable consideration.

The Company disaggregates its revenue by segment based on how it markets its products and services and reviews results of operations. The following tables disaggregate segment revenue by major product lines and services (in thousands):

	Year Ended		
Lifecore:	May 29, 2022	May 30, 2021	May 31, 2020
Contract development and manufacturing organization	$ 86,313	$ 75,297	$ 64,781
Fermentation	23,007	22,790	21,052
Total	$ 109,320	$ 98,087	$ 85,833

	Year Ended		
Curation Foods:	May 29, 2022	May 30, 2021	May 31, 2020
Avocado products	$ 65,269	$ 63,575	$ 62,194
Olive oil and wine vinegars	9,287	7,589	7,783
Technology	1,910	2,295	4,256
Total	$ 76,466	$ 73,459	$ 74,233

Shipping and Handling Costs

Amounts billed to third-party customers for shipping and handling are included as a component of revenues. Shipping and handling costs incurred are included as a component of cost of products sold and represent costs incurred to ship product from the processing facility or distribution center to the end consumer markets.

Cash and Cash Equivalents

The Company records all highly liquid securities with three months or less from date of purchase to maturity as cash equivalents. Cash equivalents consist mainly of money market funds. The market value of cash equivalents approximates their historical cost given their short-term nature.

Reconciliation of Cash and Cash Equivalents and Cash as presented on the Statements of Cash Flows

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Consolidated Statements of Cash Flows (in thousands):

	May 29, 2022	May 30, 2021	May 31, 2020
Cash and cash equivalents	$ 1,643	$ 1,159	$ 360
Restricted cash	—	—	193
Cash and cash equivalents, discontinued operations	—	136	—
Cash, cash equivalents and restricted cash	$ 1,643	$ 1,295	$ 553

Inventories

Inventories are stated at the lower of cost (using the first-in, first-out method) or net realizable value. As of May 29, 2022 and May 30, 2021, inventories consisted of the following (in thousands):

	Year Ended	
	May 29, 2022	May 30, 2021
Finished goods	$ 33,029	$ 40,204
Raw materials	24,221	16,644
Work in progress	9,595	6,228
Total inventories	$ 66,845	$ 63,076

If the cost of the inventories exceeds their net realizable value, provisions are recorded currently to reduce them to net realizable value. The Company also records a provision for slow moving and obsolete inventories based on the estimate of demand for its products.

Advertising Expense

Advertising expenditures for the Company are expensed as incurred and included in selling, general, and administrative in the accompanying Consolidated Statements of Operations. Advertising expense for the Company for fiscal years 2022, 2021 and 2020 was $0.2 million, $0.1 million and $0.1 million, respectively.

Related Party Transactions

The Company sells and licenses its BreatheWay® food packaging technology to Windset Holdings 2010 Ltd. (“Windset”), in which, as further described in Note 2 - Investment in Non-public Company, the Company had a 26.9% ownership interest until it sold that interest on June 1, 2021. During fiscal years 2021 and 2020, the Company recognized revenues of $0.5 million and $0.6 million, respectively, from the sale of products to and license fees from Windset. These amounts have been included in Product sales in the accompanying Consolidated Statements of Operations. The related receivable balance of $0.1 million from Windset is included in Accounts receivable in the accompanying Consolidated Balance Sheets as of May 30, 2021.

All related party transactions are monitored quarterly by the Company and approved by the Audit Committee of the Board of Directors.

Property and Equipment and Finite-Lived Intangible Assets

Property and equipment and finite-lived intangible assets are stated at cost. Expenditures for major improvements are capitalized while repairs and maintenance are charged to expense. Depreciation is expensed on a straight-line basis over the estimated useful lives of the respective assets. Customer relationships are amortized to operating expense on an accelerated basis that reflects the pattern in which the economic benefits are consumed. Leasehold improvements are amortized on a straight-line basis over the lesser of the economic life of the improvement or the life of the lease.

The Company capitalizes software development costs for internal use. Capitalization of software development costs begins in the application development stage and ends when the asset is placed into service. The Company amortizes such costs on a straight-line basis over estimated useful lives of three to seven years.

Property, plant and equipment and finite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances occur that indicate that the carrying amount of an asset (or asset group) may not be recoverable. The Company's impairment review requires significant management judgment including estimating the future success of product lines, future sales volumes, revenue and expense growth rates, alternative uses for the assets and estimated proceeds from the disposal of the assets. The Company conducts quarterly reviews of idle and underutilized equipment, and reviews business plans for possible impairment indicators. Impairment is indicated when the carrying amount of the asset (or asset group) exceeds its estimated future undiscounted cash flows and the impairment is viewed as other than temporary. When impairment is indicated, an impairment charge is recorded for the difference between the asset's book value and its estimated fair value. Depending on the asset, estimated fair value may be determined either by use of a discounted cash flow model or by reference to estimated selling values of assets in similar condition. The use of different assumptions would increase or decrease the estimated fair value of assets and would increase or decrease any impairment measurement.

During fiscal year 2020, the Company recorded impairment charges of $1.3 million and $0.5 million related to *O* property and equipment, and finite-lived intangible assets (customer relationships), respectively. The impairment was determined using the present value of cash flows method and was primarily a result of the recently updated (lowered) financial outlook for the *O* reporting unit, related to a recent shift in strategic focus within the Curation Foods business segment. The impairment charge of property and equipment is included in Selling, general and administrative in the Consolidated Statements of Operations. The impairment charge of the customer relationships intangible asset impairment charge is included in the line item Impairment of goodwill and intangible assets on the Consolidated Statements of Operations, and is in the Curation Foods business segment.

Impairment Review of Goodwill and Indefinite-Lived Intangible Asset

The Company tests its goodwill and trademarks with indefinite lives annually for impairment in the fiscal fourth quarter or earlier if there are indications during a different interim period that these assets may have become impaired.

On a quarterly basis, the Company considers the need to update its most recent annual tests for possible impairment of its indefinite-lived intangible assets and goodwill, based on management's assessment of changes in its business and other economic factors since the most recent annual evaluation. Such changes, if significant or material, could indicate a need to update the most recent annual tests for impairment of the indefinite-lived intangible assets during the current period. The results of these tests could lead to write-downs of the carrying values of these assets in the current period.

With respect to goodwill, the Company has the option to first assess qualitative factors such as macro-economic conditions, industry and market environment, cost factors, overall financial performance of the Company, cash flow from operating activities, market capitalization, litigation, and stock price. If the result of a qualitative test indicates a potential for impairment of a reporting unit, a quantitative test is performed. The quantitative test compares the carrying amount of a reporting unit that includes goodwill to its fair value. The Company determines the fair value using an income approach.

To determine the fair value of a reporting unit as part of its quantitative test, the Company uses a discounted cash flow ("DCF") method under the income approach, as it believes that this approach is the most reliable indicator of the fair value of its businesses and the fair value of their future earnings and cash flows. Under this approach, which requires significant judgments, the Company estimates the future cash flows of each reporting unit and discounts these cash flows at a rate of return that reflects their relative risk and rate of return an outside investor could expect to earn. The cash flows used in the DCF method are consistent with those the Company uses in its internal planning, which gives consideration to actual business trends experienced, and the broader business strategy for the long term. The other key estimates and factors used in the DCF method include, but are not limited to, future volumes, net sales and expense growth rates, and gross margin and gross margin growth rates. Changes in such estimates or the application of alternative assumptions could produce different results. A goodwill impairment loss is recognized for the amount that the carrying amount of a reporting unit, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit.

For trademarks and other intangible assets with indefinite lives, the Company has the option to first assess qualitative factors such as macro-economic conditions, industry and market environment, cost factors, overall financial performance of the Company, litigation, and changes in the business in its annual, qualitative analysis to test for impairment. If the results of a qualitative test indicate a potential for impairment of an intangible asset with an indefinite life, a quantitative test is performed. The quantitative test compares the estimated fair value of an asset to its carrying amount. If the carrying amount of such asset exceeds its estimated fair value, an impairment charge is recorded for the difference between the carrying amount and the estimated fair value. The Company uses the income approach to estimate the fair value of its trademarks. This approach requires significant judgments in determining the royalty rates and the assets' estimated cash flows as well as the appropriate discount rates applied to those cash flows to determine fair value. Changes in such estimates or the use of alternative assumptions could produce different results.

During fiscal year 2020, the Company recorded an impairment charge of $1.1 million and $3.5 million related to its *O* and Yucatan Foods trademarks, respectively. The Company also recorded an impairment charge of $5.2 million and $2.7 million related to its *O* and Yucatan Foods goodwill, respectively. The *O* impairment charges were primarily a result of the recently updated (lowered) financial outlook for the *O* reporting unit, related to a recent shift in strategic focus within the Curation Foods business segment. The Yucatan Foods impairment charges were primarily a result of an increase in the Yucatan Foods carrying value and an increase in the discount rate, as a result of uncertainty in forecasting the effects of COVID-19 and general economic uncertainties. These impairment charges are included in the line item Impairment of goodwill and intangible assets on the Consolidated Statements of Operations, and both are in the Curation Foods business segment.

During fiscal year 2022, the Company recorded impairment charges of $32.1 million and $20.0 million related to its Eat Smart business and Yucatan Foods goodwill, respectively. The Company also recorded an impairment charge of $8.7 million related to its Yucatan Foods trademarks. These impairment charges were primarily a result of an indication of a decrease in the fair market values of the Eat Smart and Yucatan Foods businesses driven by lower market valuations and a decrease in projected cash flows. The goodwill impairment charge related to the Eat Smart business goodwill is included in Loss from discontinued operations within the Consolidated Statements of Operations. The Yucatan Foods related impairment charges are included in the line item Impairment of goodwill and intangible assets on the Consolidated Statements of Operations and are in the Curation Foods business segment.

Other than the goodwill and intangibles write-offs discussed above, there were no other impairment losses for goodwill or intangibles during fiscal years 2022, 2021 and 2020.

Investment in Non-Public Company

On February 15, 2011, the Company made an investment in Windset which is reported at fair value in the accompanying Consolidated Balance Sheets as of May 30, 2021. The Company has elected to account for its investment in Windset under the fair value option. See Note 2 – Investment in Non-public Company for further information. On June 1, 2021, the Company sold all of its equity interest in Windset to the Newell Capital Corporation and Newell Brothers Investment 2 Corp.

Business Interruption Insurance Recoveries

In the third quarter of fiscal year 2019, the Company recalled five SKUs of Eat Smart single-serve Salad Shake-Ups™. In the fourth quarter of fiscal year 2019, the Company submitted a product recall claim. In fiscal year 2020, the Company recognized $3.0 million of business interruption insurance recoveries. Amounts received on insurance recoveries related to business interruption are recorded when amounts are realized and are included within Loss from discontinued operations in the Consolidated Statement of Operations and as operating cash flows.

Deferred Revenue

Cash received in advance of services performed are recorded as deferred revenue.

Income Taxes

The Company accounts for income taxes in accordance with accounting guidance which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. The Company maintains valuation allowances when it is likely that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the Company's income tax provision in the period of change. In determining whether a valuation allowance is warranted, the Company takes into account such factors as prior earnings history, expected future earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of a deferred tax asset, carryback and carryforward periods and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset.

In addition to valuation allowances, the Company establishes accruals for uncertain tax positions. The tax-contingency accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense. The Company's effective tax rate includes the impact of tax-contingency accruals as considered appropriate by management.

A number of years may elapse before a particular matter, for which the Company has accrued, is audited and finally resolved. The number of years with open tax audits varies by jurisdiction. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, the Company believes its tax-contingency accruals are adequate to address known tax contingencies. Favorable resolution of such matters could be recognized as a reduction to the Company's effective tax rate in the year of resolution. Unfavorable settlement of any particular issue could increase the Company's effective tax rate in the year of resolution. Any resolution of a tax issue may require the use of cash in the year of resolution. The Company's tax-contingency accruals are recorded in Other accrued liabilities in the accompanying Consolidated Balance Sheets.

Per Share Information

Accounting guidance requires the presentation of basic and diluted earnings per share. Basic earnings per share excludes any dilutive effects of options, warrants and convertible securities and is computed using the weighted average number of common shares outstanding. Diluted earnings per share reflect the potential dilution as if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted common equivalent shares consist of stock options and restricted stock units, calculated using the treasury stock method.

The following table sets forth the computation of diluted net loss per share:

	Year Ended		
(in thousands, except per share amounts)	May 29, 2022	May 30, 2021	May 31, 2020
Numerator:			
Net loss	$ (97,431)	$ (32,665)	$ (38,191)
Denominator:			
Weighted average shares for basic net loss per share	29,466	29,294	29,162
Effect of dilutive securities:			
Stock options and restricted stock units	—	—	—
Weighted average shares for diluted net loss per share	29,466	29,294	29,162
Diluted net loss per share	$ (3.31)	$ (1.12)	$ (1.31)

Due to the Company's net loss in fiscal years 2022, 2021, and 2020 the net loss per share includes only the weighted average shares outstanding and thus excludes restricted stock unit awards ("RSUs") and stock options, as such impact would be antidilutive. See Note 5 - Stock Based Compensation and Stockholders' Equity for more information on outstanding RSUs and stock options.

Research and Development Expenses

Costs related to both research and development contracts and Company-funded research is included in research and development expenses. Research and development costs are primarily comprised of salaries and related benefits, supplies, travel expenses, consulting expenses and corporate allocations.

Accounting for Stock-Based Compensation

The Company's stock-based awards include stock option grants and RSUs. The Company records compensation expense for stock-based awards issued to employees and directors in exchange for services provided based on the estimated fair value of the awards on their grant dates and is recognized over the required service periods, generally the vesting period.

The estimated fair value for stock options, which determines the Company's calculation of stock-based compensation expense, is based on the Black-Scholes option pricing model. The use of Black-Scholes requires the Company to make estimates and assumptions, such as expected volatility, expected term, and risk-free interest rate. RSUs are valued at the closing market price of the Company's common stock on the date of grant. The Company uses the straight-line single option method to calculate and recognize the fair value of stock-based compensation arrangements.

Employee Savings and Investment Plans

The Company sponsors a 401(k) plan ("Landec Plan"), which is available to all full-time Landec employees and allows participants to contribute from 1% to 50% of their salaries, up to the Internal Revenue Service limitation into designated investment funds. The Company matches 100% on the first 3% and 50% on the next 2% contributed by an employee. Employee and Company contributions are fully vested at the time of the contributions. The Company retains the right, by action of the Board of Directors, to amend, modify, or terminate the plan. For fiscal years 2022, 2021 and 2020, the Company contributed $1.4 million, $1.1 million and $1.1 million, respectively, to the Landec Plan.

Fair Value Measurements

The Company uses fair value measurement accounting for financial assets and liabilities and for financial instruments and certain other items measured at fair value. The Company has elected the fair value option for its investment in a non-public company. The Company has not elected the fair value option for any of its other eligible financial assets or liabilities.

Applicable accounting guidance establishes a three-tier hierarchy for fair value measurements, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – observable inputs such as quoted prices for identical instruments in active markets.

Level 2 – inputs other than quoted prices in active markets that are observable either directly or indirectly through corroboration with observable market data.

Level 3 – unobservable inputs in which there is little or no market data, which would require the Company to develop its own assumptions.

As of May 29, 2022 and May 30, 2021, the Company held certain assets and liabilities that were required to be measured at fair value on a recurring basis, including its interest rate swap, and its minority interest investment in Windset.

The fair value of the Company's interest rate swap contracts is determined based on model inputs that can be observed in a liquid market, including yield curves, and is categorized as a Level 2 fair value measurement and is included in Other assets or Other non-current liabilities in the accompanying Consolidated Balance Sheets.

As of May 29, 2022, related to the assets of Curation Foods' BreatheWay packaging technology business, the Company had $1.0 million in Prepaid expenses and other current assets within the Consolidated Balance Sheets meeting the criteria of held for sale. As of May 30, 2021, related to Curation Foods' distribution facility in Rock Hill, South Carolina the Company had $0.5 million in Current assets, discontinued operations within the Consolidated Balance Sheets meeting the criteria of assets held for sale. These assets are recognized at the lower of cost or fair value less cost to sell using market approach. The fair value of these assets are classified as level 3 in the fair value hierarchy due to a mix of unobservable inputs utilized such as independent research in the market as well as actual quotes from market participants. See Note 3 - Property and Equipment and Note 13 - Restructuring Costs for additional information.

The Company elected the fair value option of accounting for its investment in Windset. The calculation of fair value utilized significant unobservable inputs, including projected cash flows, growth rates, and discount rates. As a result, the Company's investment in Windset was considered to be a Level 3 measurement investment. The Company sold its entire investment in Windset on June 1, 2021 for $45.1 million. No gain or loss was recorded upon the sale of the Company's investment in Windset.

In determining the fair value of the Company's investment in Windset, the Company utilizes the following significant unobservable inputs in the discounted cash flow models:

	May 30, 2021 Range (Weighted Average)
Revenue growth rates	7% (6.9%)
Expense growth rates	0% to 8% (5.5%)
Discount rates	10%

Imprecision in estimating unobservable market inputs can affect the amount of gain or loss recorded for a particular position. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table summarizes the fair value of the Company's assets and liabilities that are measured at fair value on a recurring and non-recurring basis (in thousands):

	Fair Value at May 29, 2022			Fair Value at May 30, 2021		
Assets:	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets held for sale - nonrecurring	$ —	$ —	$ 1,027	$ —	$ —	$ —
Current assets, discontinued operations						
Assets held for sale - nonrecurring	—	—	—	—	—	515
Other assets, discontinued operations						
Investment in non-public company	—	—	—	—	—	45,100
Total assets	$ —	$ —	$ 1,027	$ —	$ —	$ 45,615
Liabilities:						
Interest rate swap contracts	$ —	$ —	$ —	$ —	$ 1,736	$ —
Total liabilities	$ —	$ —	$ —	$ —	$ 1,736	$ —

The following table reflects the fair value roll forward reconciliation of Level 3 assets and liabilities measured at fair value for the twelve months ended May 29, 2022 (in thousands):

	Windset Investment
Balance as of May 30, 2021	$ 45,100
Sale of Investment in non-public company	(45,100)
Balance as of May 29, 2022	$ —

Correction of Error in Previously Reported Fiscal Year 2022 Interim Financial Statements (Unaudited)

The Company is restating (the "Restatement") its previously issued (i) unaudited consolidated balance sheets as of February 27, 2022 and May 30, 2021, (ii) unaudited consolidated statements of comprehensive (loss) income for the three and nine months ended February 27, 2022, (iii) unaudited consolidated statement of cash flows for the nine months ended February 27, 2022, (iv) unaudited consolidated statement of changes in stockholders' equity, and (v) unaudited Note 4, Note 7, Note 8, and Note 9 to the consolidated financial statements, in each case, as previously reported in our Quarterly Report on Form 10-Q for the period ended February 27, 2022 (the "Prior Financial Statements"). We assessed the materiality of this error in accordance with the U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 99, Materiality and have concluded that the Prior Financial Statements should be restated.

This restatement reflected in the tables below results from corrections by us primarily related to:

(i) the classification of certain expenses and the recording of accruals related to the Company's recent disposition activities and the Company's corporate transition of Landec Corporation to Lifecore Biomedical, which were previously classified as restructuring expenses from continuing operations in our Prior Financial Statements, but which the Company intends to correct to classify as selling, general and administrative expenses, and cost of goods sold within continuing operations;

(ii) the treatment of the fees received and costs incurred by the Company pursuant to the transition services agreement related to the sale of the Curation Foods' Eat Smart business (the "TSA"), for which the Company had previously recognized the net of the TSA fees received and costs incurred as loss on sale of Eat Smart within discontinued operations, but for which the Company intends to correct to classify the TSA fees received by the Company within transition services income and the TSA costs incurred by the Company as selling, general and administrative expenses within continuing operations; and

(iii) the classification of certain costs and expenses related to the Company's recent disposition activities and the Company's corporate transition of Landec Corporation to Lifecore Biomedical, which were previously classified as loss on sale of Eat Smart within discontinued operations, but which the Company intends to correct to classify as selling, general and administrative expenses within continuing operations.

The effects of this error on our previously reported February 27, 2022 and May 30, 2021 consolidated balance sheets as presented in the Company's fiscal year 2022 third quarter Form 10-Q are as follows:

	As reported		As restated
(in thousands)	February 27, 2022	Adjustment	February 27, 2022
LIABILITIES AND STOCKHOLDERS' EQUITY			
Other accrued liabilities	$ 13,735	$ 348	$ 14,083
Total Current Liabilities	90,065	348	90,413
Total Liabilities	181,510	348	181,858
Retained earnings (accumulated deficit)	(22,188)	(348)	(22,536)
Total Stockholders' Equity	144,072	(348)	143,724
Total Liabilities and Stockholders' Equity	$ 325,582	$ —	$ 325,582

	As reported		As restated
(in thousands)	May 30, 2021	Adjustment	May 30, 2021
ASSETS			
Property and equipment, net	$ 112,770	$ 7,516	$ 120,286
Operating lease right-of-use assets	7,480	9,618	17,098
Other assets, discontinued operations	171,274	(17,134)	154,140
Total Assets	502,924	—	502,924
LIABILITIES			
Current portion of lease liabilities	1,465	135	1,600
Current liabilities, discontinued operations	42,779	(135)	42,644
Total Current Liabilities	101,888	—	101,888
Long-term lease liabilities	9,581	10,778	20,359
Non-current liabilities, discontinued operations	14,759	(10,778)	3,981
Total Liabilities	$ 300,140	$ —	$ 300,140

The effects of this error on our previously reported fiscal year 2022 interim consolidated statements of comprehensive (loss) income for the three month period ended February 27, 2022 are as follows:

(in thousands, except per share amounts)	As reported February 27, 2022	Adjustment	As restated February 27, 2022
Product sales	$ 53,074	$ —	$ 53,074
Cost of product sales	39,179	675	39,854
Gross profit	13,895	(675)	13,220
Operating costs and expenses:			
Research and development	2,056	—	2,056
Selling, general and administrative	9,725	6,625	16,350
Restructuring cost	5,865	(595)	5,270
Total operating costs and expenses	17,646	6,030	23,676
Operating loss	(3,751)	(6,705)	(10,456)
Interest income	20	—	20
Interest expense	(4,105)	—	(4,105)
Transition services income	—	5,473	5,473
Other income (expense), net	454	—	454
Net loss from continuing operations before taxes	(7,382)	(1,232)	(8,614)
Income tax benefit	276	37	313
Net loss from continuing operations	(7,106)	(1,195)	(8,301)
Loss from discontinued operations, net of tax	(5,744)	959	(4,785)
Net loss	$ (12,850)	$ (236)	$ (13,086)
Basic and diluted net loss per share:			
Loss from continuing operations	$ (0.24)	$ (0.04)	$ (0.28)
Loss from discontinued operations	(0.19)	0.03	(0.16)
Total basic and diluted net loss per share	$ (0.43)	$ (0.01)	$ (0.44)
Other comprehensive income (loss), net of tax:			
Net unrealized gain (losses) on interest rate swaps (net of tax effect)	$ 104	$ —	$ 104
Other comprehensive income (loss), net of tax	104	—	104
Total comprehensive loss	$ (12,746)	$ (236)	$ (12,982)

The effects of this error on our previously reported fiscal year 2022 interim consolidated statements of comprehensive (loss) income for the nine-month period ended February 27, 2022 are as follows:

(in thousands, except per share amounts)	As reported February 27, 2022	Adjustment	As restated February 27, 2022
Product sales	$ 138,158	$ —	$ 138,158
Cost of product sales	99,113	787	99,900
Gross profit	39,045	(787)	38,258
Operating costs and expenses:			
Research and development	5,785	—	5,785
Selling, general and administrative	27,207	6,906	34,113
Restructuring costs	8,406	(876)	7,530
Total operating costs and expenses	41,398	6,030	47,428
Operating loss	(2,353)	(6,817)	(9,170)
Interest income	66	—	66
Interest expense	(13,877)	—	(13,877)
Transition services income	—	5,473	5,473
Other income (expense), net	642	—	642
Net loss from continuing operations before taxes	(15,522)	(1,344)	(16,866)
Income tax benefit	5,012	14	5,026
Net loss from continuing operations	(10,510)	(1,330)	(11,840)
Loss from discontinued operations, net of tax	(50,258)	982	(49,276)
Net loss	$ (60,768)	$ (348)	$ (61,116)
Basic and diluted net loss per share:			
Loss from continuing operations	$ (0.36)	$ (0.05)	$ (0.41)
Loss from discontinued operations	(1.71)	0.03	(1.68)
Total basic and diluted net loss per share	$ (2.07)	$ (0.02)	$ (2.09)
Other comprehensive income (loss), net of tax:			
Net unrealized gain (losses) on interest rate swaps (net of tax effect)	$ 646	$ —	$ 646
Other comprehensive income (loss), net of tax	646	—	646
Total comprehensive loss	$ (60,122)	$ (348)	$ (60,470)

The effects of this error on our previously reported fiscal year 2022 consolidated statements of changes in stockholders' equity for the nine-month period ended February 27, 2022 are as follows:

(In thousands)	As reported Retained Earnings (Accumulated Deficit)	As reported Total Stockholders' Equity	Adjustment	As restated Retained Earnings (Accumulated Deficit)	As restated Total Stockholders' Equity
Balance at May 30, 2021	$ 38,580	$ 202,784	$ —	$ 38,580	$ 202,784
Net loss	(9,477)	(9,477)	(32)	(9,509)	(9,509)
Balance at August 29, 2021	29,103	193,865	(32)	29,071	193,833
Net loss	(38,441)	(38,441)	(80)	(38,521)	(38,521)
Balance at November 28, 2021	(9,338)	156,202	(112)	(9,450)	156,090
Net loss	(12,850)	(12,850)	(236)	(13,086)	(13,086)
Balance at February 27, 2022	$ (22,188)	$ 144,072	$ (348)	$ (22,536)	$ 143,724

The effects of this error on our previously reported fiscal year 2022 consolidated statements of cash flows for the nine-month period ended February 27, 2022 are as follows:

(in thousands)	As reported February 27, 2022	Adjustment	As restated February 27, 2022
Cash flows from operating activities:			
Net loss	$ (60,768)	$ (348)	$ (61,116)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Impairment of goodwill	32,057	—	32,057
Depreciation, amortization of intangibles, debt costs and right-of-use assets	14,488	—	14,488
Loss on disposal of property and equipment related to restructuring, net	5,185	—	5,185
Deferred taxes	(5,471)	—	(5,471)
Loss on sale of Eat Smart	4,354	(4,119)	235
Stock-based compensation expense	1,928	—	1,928
Net loss on disposal of property and equipment held and used	25	—	25
Provision (benefit) for expected credit losses	(14)	—	(14)
Other, net	(551)	—	(551)
Changes in current assets and current liabilities:			
Accounts receivable, net	(7,525)	—	(7,525)
Inventories	(11,910)	—	(11,910)
Prepaid expenses and other current assets	(1,448)	—	(1,448)
Accounts payable	13,055	452	13,507
Accrued compensation	(3,849)	1,822	(2,027)
Other accrued liabilities	(4,195)	4,125	(70)
Deferred revenue	204	458	662
Net cash (used in) provided by operating activities	(24,435)	2,390	(22,045)
Cash flows from investing activities:			
Proceeds from sale of Eat Smart	73,500	—	73,500
Sale of Investment in non-public company	45,100	—	45,100
Purchases of property and equipment	(18,539)	—	(18,539)
Proceeds from sales of property and equipment	1,096	—	1,096
Eat Smart sale net working capital adjustment and cash sale expenses	—	(2,390)	(2,390)
Net cash provided by investing activities	101,157	(2,390)	98,767
Net cash used in financing activities	(76,163)	—	(76,163)
Net increase in cash, cash equivalents and restricted cash	559	—	559
Cash, cash equivalents and restricted cash, beginning of period	1,295	—	1,295
Cash, cash equivalents and restricted cash, end of period	$ 1,854	$ —	$ 1,854

The effects of this error on our previously reported fiscal year 2022 diluted earnings per share for the three and nine month periods ended February 27, 2022 as presented in the Company's fiscal year 2022 third quarter Form 10-Q Note 4 - Diluted Earnings per share are as follows:

	Three Months Ended			Nine Months Ended		
(in thousands, except per share amounts)	As reported February 27, 2022	Adjustment	As restated February 27, 2022	As reported February 27, 2022	Adjustment	As restated February 27, 2022
Numerator:						
Net loss	$ (12,850)	$ (236)	$ (13,086)	$ (60,768)	$ (348)	$ (61,116)
Denominator:						
Weighted average shares for diluted net loss per share	29,482	29,482	29,482	29,459	29,459	29,459
Diluted net loss per share	$ (0.43)	$ (0.01)	$ (0.44)	$ (2.07)	$ (0.02)	$ (2.09)

The effects of this error on our previously reported fiscal year 2022 operations by business segment for the three and nine month periods ended February 27, 2022 as presented in the Company's fiscal year 2022 third quarter Form 10-Q Note 7 - Business Segment Reporting are as follows:

(In Thousands)	Lifecore	Curation Foods	Other	Total
Three Months Ended February 27, 2022				
Gross profit, As reported	$ 12,905	$ 990	$ —	$ 13,895
Adjustment	—	(675)	—	(675)
Gross profit, As restated	12,905	315	—	13,220
Net income (loss) from continuing operations, As reported	5,054	(5,848)	(6,312)	(7,106)
Adjustment	—	(1,195)	—	(1,195)
Net income (loss) from continuing operations, As restated	5,054	(7,043)	(6,312)	(8,301)
Loss from discontinued operations, As reported	—	(2,703)	(3,041)	(5,744)
Adjustment	—	959	—	959
Loss from discontinued operations, As restated	—	(1,744)	(3,041)	(4,785)
Nine Months Ended February 27, 2022				
Gross profit, As reported	$ 30,384	$ 8,661	$ —	$ 39,045
Adjustment	—	(787)	—	(787)
Gross profit, As restated	30,384	7,874	—	38,258
Net income (loss) from continuing operations, As reported	11,317	5,513	(27,340)	(10,510)
Adjustment	—	(1,330)	—	(1,330)
Net income (loss) from continuing operations, As restated	11,317	4,183	(27,340)	(11,840)
Loss from discontinued operations, As reported	—	(47,217)	(3,041)	(50,258)
Adjustment	—	982	—	982
Loss from discontinued operations, As restated	—	(46,235)	(3,041)	(49,276)

The effects of this error on our previously reported fiscal year 2022 restructuring costs for the three and nine month periods ended February 27, 2022 as presented in the Company's fiscal year 2022 third quarter Form 10-Q Note 8 - Restructuring Costs are as follows:

(In thousands) *Three Months Ended February 27, 2022*	Lifecore	Curation Foods	Other	Total
Total restructuring costs, As reported	$ 271	$ 5,344	$ 250	$ 5,865
Adjustment	(271)	(124)	(200)	(595)
Total restructuring costs, As restated	$ —	$ 5,220	$ 50	$ 5,270

(In thousands) *Nine Months Ended February 27, 2022*	Lifecore	Curation Foods	Other	Total
Total restructuring costs, As reported	$ 271	$ 5,810	$ 2,325	$ 8,406
Adjustment	(271)	(124)	(481)	(876)
Total restructuring costs, As restated	$ —	$ 5,686	$ 1,844	$ 7,530

The effects of this error on our previously reported May 30, 2021 carrying amounts of the major classes of assets and liabilities of the Eat Smart business included in assets and liabilities of discontinued operations as presented in the Company's fiscal year 2022 third quarter Form 10-Q Note 9 - Discontinued Operations are as follows:

(in thousands)	As reported May 30, 2021	Adjustment	As restated May 30, 2021
ASSETS			
Property and equipment, net	$ 66,789	$ (7,516)	$ 59,273
Operating lease right-of-use assets	13,347	(9,618)	3,729
Other assets, discontinued operations	171,274	(17,134)	154,140
LIABILITIES			
Current portion of lease liabilities	2,424	(135)	2,289
Current liabilities, discontinued operations	42,779	(135)	42,644
Long-term lease liabilities	14,030	(10,778)	3,252
Non-current liabilities, discontinued operations	14,759	(10,778)	3,981

The effects of this error on our previously reported fiscal year 2022 components of loss from discontinued operations for the three month period ended February 27, 2022 as presented in the Company's fiscal year 2022 third quarter Form 10-Q Note 9 - Discontinued Operations are as follows:

(in thousands)	As reported February 27, 2022	Adjustment	As restated February 27, 2022
Operating costs and expenses:			
Loss on sale of Eat Smart	$ 4,354	$ (4,119)	$ 235
Restructuring cost	86	3,123	3,209
Total operating costs and expenses	5,601	(996)	4,605
Operating loss	(5,762)	996	(4,766)
Income tax benefit	222	(37)	185
Loss from discontinued operations, net of tax	$ (5,744)	$ 959	$ (4,785)

The effects of this error on our previously reported fiscal year 2022 components of loss from discontinued operations for the nine-month period ended February 27, 2022 as presented in the Company's fiscal year 2022 third quarter Form 10-Q Note 9 - Discontinued Operations are as follows:

(in thousands)	As reported February 27, 2022	Adjustment	As restated February 27, 2022
Operating costs and expenses:			
Loss on sale of Eat Smart	$ 4,354	$ (4,119)	$ 235
Restructuring cost	1,519	3,123	4,642
Total operating costs and expenses	53,198	(996)	52,202
Operating loss	(47,998)	996	(47,002)
Income tax benefit	422	(14)	408
Loss from discontinued operations, net of tax	$ (50,258)	$ 982	$ (49,276)

2. Investment in Non-public Company

Windset

On February 15, 2011, Curation Foods entered into a share purchase agreement (the "Windset Purchase Agreement") with Windset. Pursuant to the Windset Purchase Agreement, Curation Foods purchased from Windset 150,000 Senior A preferred shares for $15.0 million and 201 common shares for $201. On July 15, 2014, Curation Foods increased its investment in Windset by purchasing from the Newell Capital Corporation an additional 68 common shares and 51,211 junior preferred shares of Windset for $11.0 million. After this purchase, the Company's common shares represented a 26.9% ownership interest in Windset. The Senior A preferred shares yielded a cash dividend of 7.5% annually. The dividend was payable within 90 days of each anniversary of the execution of the Windset Purchase Agreement. The non-voting junior preferred stock did not yield a dividend unless declared by the Board of Directors of Windset and no such dividend has been declared.

The Shareholders' Agreement between Curation Foods and Windset, as amended on March 15, 2017, included a put and call option (the "Put and Call Option"), which was exercisable on or after March 31, 2022, whereby Curation Foods could exercise the put to sell its common, Senior A preferred shares, and junior preferred shares to Windset, or Windset could exercise the call to purchase those shares from Curation Foods, in either case, at a price equal to 26.9% of the fair market value of Windset's common shares, plus the liquidation value of the preferred shares of $20.1 million ($15.0 million for the Senior A preferred shares and $5.1 million for the junior preferred shares). Under the terms of the arrangement with Windset, the Company was entitled to designate one of five members on the Board of Directors of Windset.

On October 29, 2014, Curation Foods further increased its investment in Windset by purchasing 70,000 shares of Senior B preferred shares for $7.0 million. The Senior B preferred shares paid an annual dividend of 7.5% on the amount outstanding at each anniversary date of the Windset Purchase Agreement. The Senior B preferred shares purchased by Curation Foods had a put feature whereby Curation Foods could sell back to Windset the Senior B preferred shares for $7.0 million at any time after October 29, 2017.

During the fourth quarter of fiscal year 2019, the Company exercised its put feature and sold the 70,000 shares of Senior B preferred shares back to Windset for $7.0 million.

The investment in Windset does not qualify for equity method accounting as the investment does not meet the criteria of in-substance common stock due to returns through the annual dividend on the non-voting senior preferred shares that were not available to the common stock holders. As the put and call options required all of the various shares to be put or called in equal proportions, the Company has deemed that the investment, in substance, should be treated as a single security for purposes of accounting.

The fair value of the Company's investment in Windset was determined utilizing the Windset Purchase Agreement's put/call calculation for value and a discounted cash flow model based on projections developed by Windset that were reviewed by Landec, and considers the put and call conversion options. These features impact the duration of the cash flows utilized to derive the estimated fair values of the investment. These two discounted cash flow models' estimate for fair value are then weighted. Assumptions included in these discounted cash flow models are evaluated quarterly based on Windset's actual and projected operating results to determine the change in fair value.

During the fiscal years ended May 30, 2021 and May 31, 2020, the Company recorded $1.1 million in dividend income, respectively, which is included in loss from discontinued operations in the accompanying Consolidated Statements of Operations. The decrease in the fair market value of the Company's investment in Windset for the fiscal years ended May 30, 2021 and May 31, 2020 was $11.8 million and $4.2 million, respectively, and is included in loss from discontinued operations in the accompanying Consolidated Statements of Operations.

On June 1, 2021, the Company and Curation Foods entered into and closed a Share Purchase Agreement (the "Purchase Agreement") with Newell Capital Corporation and Newell Brothers Investment 2 Corp., as Purchasers (the "Purchasers") and Windset, pursuant to which Curation Foods sold all of its equity interests of Windset to the Purchasers in exchange for an aggregate purchase price of $45.1 million.

3. Property and Equipment

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

	Years of Useful Life	Year Ended May 29, 2022	Year Ended May 30, 2021
Land		$ 3,710	$ 3,670
Buildings	15 - 40	60,271	47,880
Leasehold improvements	3 - 15	6,793	6,465
Computers, capitalized software, machinery, equipment and autos	3 - 25	88,936	71,832
Furniture and fixtures	3 - 7	2,290	2,513
Construction in process		22,935	31,383
Gross property and equipment		184,935	163,743
Less accumulated depreciation and amortization		(54,500)	(43,457)
Property and equipment, net		$ 130,435	$ 120,286

Depreciation and amortization expense for property and equipment for the fiscal years ended May 29, 2022, May 30, 2021 and May 31, 2020 was $9.3 million, $7.2 million and $6.9 million, respectively. Amortization related to finance leases, which is included in depreciation expense, was $0.1 million for the fiscal years ended May 29, 2022, May 30, 2021, and May 31, 2020.

During fiscal years 2022, 2021 and 2020, the Company capitalized $0.3 million, $0.4 million, and $0.8 million in software development costs, respectively. Amortization related to capitalized software was $0.5 million, $0.4 million, and $0.3 million for fiscal years ended May 29, 2022, May 30, 2021 and May 31, 2020, respectively. The unamortized computer software costs as of May 29, 2022 and May 30, 2021 were $1.9 million and $1.9 million, respectively. Capitalized interest was $0.4 million, $0.3 million, and $0.4 million for fiscal years ended May 29, 2022, May 30, 2021 and May 31, 2020, respectively. As disclosed in Note 1, an impairment of property and equipment related to the *O* reporting unit of $1.3 million was recorded in Selling, general and administrative in the accompanying Consolidated Statements of Operations for the year ended May 31, 2020. As disclosed in Note 13, an impairment of property and equipment related to the Curation Foods Santa Maria Office leasehold improvements of $3.7 million was recorded in Restructuring costs in the accompanying Consolidated Statements of Operations for the year ended May 29, 2022.

Assets Held for Sale

In June 2019, the Company designated the Santa Maria office as the Curation Foods headquarters, and decided to close and put up for sale the Curation Foods office in San Rafael, California. During the fiscal year ended May 31, 2020, the Company closed escrow on the San Rafael property and recognized a $0.4 million impairment loss, which is included in restructuring costs within the Consolidated Statements of Operations. The Company received net cash proceeds of $2.4 million in connection with the sale.

In January 2020, the Company decided to seek to divest its Curation Foods salad dressing plant in Ontario, California. During the fiscal year ended May 31, 2020, the Company recognized a $10.9 million impairment loss, which is included in Loss from discontinued operations within the Consolidated Statements of Operations. In fiscal year 2021, the Company sold its interest in Ontario. The Company received net cash proceeds of $4.9 million in connection with the sale and recorded a gain of $2.8 million during the fiscal year ended May 30, 2021, which is included in Loss from discontinued operations within the Consolidated Statements of Operations.

In June 2020 the Board of Directors approved a plan to close Curation Foods' underutilized manufacturing operations in Hanover, Pennsylvania ("Hanover"), sell the building and assets related thereto, and consolidate its operations into its manufacturing facilities in Guadalupe, California and Bowling Green, Ohio. In the first quarter of fiscal year 2021, the Company recognized an $8.8 million impairment loss, which is included in Loss from discontinued operations within the Consolidated Statements of Operations. During the second quarter of fiscal year 2021, the Company sold the Hanover building and assets related thereto for net proceeds of $8.0 million, no gain or loss was recorded upon sale.

In May 2021 the Board of Directors approved a plan to sell Curation Foods' Rock Hill, South Carolina distribution facility. The $0.5 million carrying value of this asset is included in Current assets, discontinued operations on the Consolidated Balance Sheets as of May 30, 2021, and was classified as an asset held for sale. There was no impairment recorded in fiscal year 2021. The asset was sold in fiscal year 2022 for gross proceeds of $1.1 million.

In May 2022 the Board of Directors approved a plan to sell the assets of Curation Foods' BreatheWay packaging technology business. The $1.0 million carrying value of these assets ($0.9 million of inventory and $0.1 million net book value of property and equipment) are included in Prepaid expenses and other current assets on the Consolidated Balance Sheets as of May 29, 2022, and were classified as assets held for sale. There was no impairment recorded in fiscal year 2022. These assets were sold in fiscal year 2023 for gross proceeds of $3.2 million.

4. Goodwill and Intangible Assets

Goodwill

The following table presents the changes in goodwill during fiscal 2022 and fiscal 2021 (in thousands):

	2022	2021
Balance at beginning of year	$ 33,916	$ 33,916
Impairment	(20,035)	—
Balance at end of year	$ 13,881	$ 33,916

We have determined that the Eat Smart, Yucatan Foods, *O*, and Lifecore are the appropriate reporting units for testing goodwill for impairment. As disclosed in Note 1, an impairment charge of $5.2 million and $2.7 million in *O* and Yucatan Foods reporting units, respectively, was recorded during the year ended May 31, 2020. As disclosed in Note 1, an impairment charge of $32.1 million and $20.0 million in the Eat Smart and Yucatan Foods reporting units, respectively, was recorded during the year ended May 29, 2022. As of May 29, 2022, the Lifecore reporting unit had $13.9 million of goodwill.

Intangible Assets

As of May 29, 2022 and May 30, 2021, the Company's intangible assets consisted of the following (in thousands):

		May 29, 2022		May 30, 2021	
	Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships					
Lifecore	12	$ 3,700	$ 3,700	$ 3,700	$ 3,418
Yucatan Foods (Curation Foods)	12	11,000	3,850	11,000	2,750
Total customer relationships		$ 14,700	$ 7,550	$ 14,700	$ 6,168
Trademarks/tradenames					
Lifecore		$ 4,200	$ —	$ 4,200	$ —
O (Curation Foods)		500	—	500	—
Yucatan Foods (Curation Foods)		3,700	—	12,400	—
Total trademarks/tradenames		$ 8,400	$ —	$ 17,100	$ —
Total intangible assets		$ 23,100	7,550	$ 31,800	$ 6,168

Amortization expense related to finite-lived intangible assets was $1.4 million, $1.4 million, and $1.5 million in fiscal 2022, 2021 and 2020, respectively.

The amortization expense for each year presented are as follows (in thousands):

Fiscal year 2023	$ 1,100
Fiscal year 2024	1,100
Fiscal year 2025	1,100
Fiscal year 2026	1,100
Fiscal year 2027	1,100
Total	$ 5,500

As discussed in Note 1, the Company recognized an impairment of the customer relationships in the Curation Foods business segment (in the *O* reporting unit) of $0.5 million during the year ended May 31, 2020. In addition, the Company recognized an impairment of the trademarks in the Curation Foods business segment for *O* and Yucatan Foods of $1.1 million and $3.5 million, respectively during the year ended May 31, 2020. As discussed in Note 1, the Company recognized an impairment of the trademarks in the Curation Foods business segment for Yucatan Foods of $8.7 million during the year ended May 29, 2022.

5. Stock-based Compensation and Stockholders' Equity

Common Stock and Stock Option Plans

On October 16, 2019, following stockholder approval at the Annual Meeting of Stockholders of the Company, the 2019 Stock Incentive Plan (the "Plan") became effective and replaced the Company's 2013 Stock Incentive Plan (the "2013 Plan"). Employees (including officers), consultants and directors of the Company and its subsidiaries and affiliates are eligible to participate in the Plan.

The Plan provides for the grant of stock options (both nonstatutory and incentive stock options), stock grants, stock units and stock appreciation rights. Awards under the Plan will be evidenced by an agreement with the Plan participants and 2.0 million shares of the Company's Common Stock ("Shares") were initially available for award under the Plan. Under the Plan, no recipient may receive awards during any fiscal year that exceeds the following amounts: (i) stock options covering in excess of 500,000 Shares in the aggregate; (ii) stock grants and stock units covering in excess of 250,000 Shares in the aggregate; or (iii) stock appreciation rights covering more than 500,000 Shares in the aggregate. In addition, awards to non-employee directors are discretionary. However, a non-employee director may not be granted awards in excess of an aggregate fair market value of $120,000 during any fiscal year. The exercise price of the options is the fair market value of the Company's Common Stock on the date the options are granted. As of May 29, 2022, 1,700,911 options to purchase shares and restricted stock units ("RSUs") were outstanding.

On October 10, 2013, following stockholder approval at the Annual Meeting of Stockholders of the Company, the 2013 Plan became effective and replaced the Company's 2009 Stock Incentive Plan. Employees (including officers), consultants and directors of the Company and its subsidiaries and affiliates were eligible to participate in the 2013 Plan. The 2013 Plan provided for the grant of stock options (both nonstatutory and incentive stock options), stock grants, stock units and stock appreciation rights. Under the 2013 Plan, 2.0 million shares were initially available for awards and as of May 29, 2022, 541,374 options to purchase shares and RSUs were outstanding.

At May 29, 2022, the Company had 3.7 million common shares reserved for future issuance under Landec stock incentive plans.

Convertible Preferred Stock

The Company has authorized 2.0 million shares of preferred stock, and as of May 29, 2022 has no outstanding preferred stock.

Grant Date Fair Value

The Company uses the Black-Scholes option pricing model to calculate the grant date fair value of stock option awards. The use of an option pricing model requires the Company to make estimates and assumptions, including the expected stock price volatility, expected life of option awards, risk-free interest rate, and expected dividend yield which have a significant impact on the fair value estimates. As of May 29, 2022, May 30, 2021 and May 31, 2020, the fair value of stock option grants was estimated using the following weighted average assumptions:

	Year Ended		
	May 29, 2022	May 30, 2021	May 31, 2020
Weighted-average grant date fair value	$2.62	$2.37	$2.55
Assumptions:			
Expected life (in years)	2.80	3.36	3.50
Risk-free interest rate	0.45 %	0.23 %	1.01 %
Volatility	33 %	33 %	31 %
Dividend yield	— %	— %	— %

Stock-Based Compensation Activity

A summary of the activity under the Company's stock option plans as of May 29, 2022 and changes during the fiscal year then ended is presented below:

	Options Outstanding	Weighted-Average Exercise Price Per Share	Total Intrinsic Value of Options Exercised	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Options outstanding at May 26, 2019	2,000,096	$ 12.94			
Options granted	435,000	$ 10.42			
Options exercised	(163,333)	$ 11.16	$ 169,066		
Options forfeited	(55,806)	$ 13.08			
Options expired	(499,599)	$ 14.04			
Options outstanding at May 31, 2020	1,716,358	$ 12.15			
Options granted	682,600	$ 9.66			
Options exercised	—	$ —	$ —		
Options forfeited	(127,714)	$ 9.93			
Options expired	(437,227)	$ 13.42			
Options outstanding at May 30, 2021	1,834,017	$ 11.07			
Options granted	803,000	$ 11.79			
Options exercised	(161,415)	$ 9.69	$ 304,211		
Options forfeited	(205,746)	$ 10.96			
Options expired	(322,170)	$ 13.31			
Options outstanding at May 29, 2022	1,947,686	$ 11.13		4.72	$ 310,682
Options exercisable at May 29, 2022	986,594	$ 10.96		3.73	$ 195,247

A summary of the Company's restricted stock unit award activity as of May 29, 2022 and changes during the fiscal year then ended is presented below:

	Restricted Stock Units Outstanding	Weighted-Average Grant Date Fair Value Per Share
Restricted stock units/awards outstanding at May 26, 2019	428,427	$ 12.80
Granted	296,527	$ 9.79
Vested	(124,045)	$ 11.82
Forfeited	(131,361)	$ 12.49
Restricted stock units/awards outstanding at May 31, 2020	469,548	$ 11.24
Granted	188,225	$ 10.13
Vested	(146,197)	$ 11.69
Forfeited	(31,180)	$ 10.60
Restricted stock units/awards outstanding at May 30, 2021	480,396	$ 10.71
Granted	105,858	$ 11.98
Vested	(228,568)	$ 11.41
Forfeited	(63,087)	$ 10.70
Restricted stock units/awards outstanding at May 29, 2022	294,599	$ 10.55

Stock-Based Compensation Expense

The following table summarizes the stock-based compensation by statement of operations line item:

	Year Ended		
(in thousands)	May 29, 2022	May 30, 2021	May 31, 2020
Continuing operations:			
Cost of sales	$ 314	$ 348	$ 118
Research and development	202	223	158
Selling, general and administrative	2,126	2,734	2,099
Discontinued Operations	(34)	55	44
Total stock-based compensation	$ 2,608	$ 3,360	$ 2,419

As of May 29, 2022, there was $2.7 million of total unrecognized compensation expense related to unvested equity compensation awards granted under the Landec stock incentive plans. Total expense is expected to be recognized over the weighted-average period of 1.90 years for stock options and 1.71 years for restricted stock unit awards.

Stock Repurchase Plan

On July 14, 2010, the Board of Directors of the Company approved the establishment of a stock repurchase plan which allows for the repurchase of up to $10.0 million of the Company's Common Stock. The Company may repurchase its Common Stock from time to time in open market purchases or in privately negotiated transactions. The timing and actual number of shares repurchased is at the discretion of management of the Company and will depend on a variety of factors, including stock price, corporate and regulatory requirements, market conditions, the relative attractiveness of other capital deployment opportunities and other corporate priorities. The stock repurchase program does not obligate Landec to acquire any amount of its Common Stock and the program may be modified, suspended or terminated at any time at the Company's discretion without prior notice. During fiscal years 2022, 2021 and 2020, the Company did not purchase any shares on the open market.

6. Debt

On September 23, 2016, the Company entered into a Credit Agreement with JPMorgan, BMO, and City National Bank, as lenders (collectively, the "Lenders"), and JPMorgan as administrative agent, pursuant to which the Lenders provided the Company with a $100.0 million revolving line of credit (the "Revolver") and a $50.0 million term loan facility (the "Term Loan"), guaranteed by each of the Company's direct and indirect subsidiaries and secured by substantially all of the Company's assets, with the exception of the Company's investment in Windset.

On November 30, 2018, the Company entered into the Fourth Amendment to the Credit Agreement, which increased the Term Loan to $100.0 million and the Revolver to $105.0 million.

On October 25, 2019, the Company entered into the Sixth Amendment to the Credit Agreement, which increased the Term Loan to $120.0 million and decreased the revolver to $100.0 million. Both the Revolver and the Term Loan mature on October 25, 2022, with the Term Loan requiring quarterly principal payments of $3.0 million and the remainder continuing to be due at maturity.

On March 19, 2020, the Company entered into the Seventh Amendment to the Credit Agreement (the "Seventh Amendment"), which among other changes, retroactively increased the maximum Total Leverage Ratio (as defined in the Credit Agreement as the ratio of the Company's total indebtedness on such date to the Company's consolidated EBITDA for the period of four consecutive fiscal quarters ended on or most recently prior to such date) to 5.75 to 1.00 for the fiscal quarter ended February 23, 2020, which decreases back to 5.00 to 1.00 for the fiscal quarter ending May 31, 2020. The maximum Total Leverage Ratio thereafter decreases by 25 basis points each subsequent fiscal quarter thereafter, until it reaches 3.50 for the fiscal quarter ending November 28, 2021, and then remains fixed through maturity. The Seventh Amendment also introduced additional financial covenants that remain in effect through May 31, 2020, including minimum cumulative monthly Unadjusted EBITDA thresholds and maximum capital expenditures, as well as additional reporting requirements and frequencies. Interest on both the Revolver and the Term Loan continues to be based upon the Company's Total Leverage Ratio, at a per annum rate of either (i) the prime rate plus a spread of between 0.25% and 3.00% or (ii) the Eurodollar rate plus a spread of between 1.25% and 4.00%.

On July 15, 2020, the Company entered into the Eighth Amendment to the Credit Agreement (the "Eighth Amendment"), which among other things, (i) modified the definition of EBITDA to increase the limit on permitted exclusions for certain unusual, extraordinary or one-time cash items for each fiscal quarter ending on or after February 28, 2021, to a maximum of 20% of EBITDA, and (ii) restricted the Company from making Capital Expenditures over certain thresholds. Interest continues to be based on the Company's Total Leverage Ratio, at a revised per annum Applicable Rate of either (i) the prime rate plus a spread of between 0.75% and 3.50% or (ii) the Eurodollar rate plus a spread of between 1.75% and 4.50%, plus, in each case, a commitment fee, as applicable, of between 0.15% and 0.55%, as further described in the Eighth Amendment.

On December 31, 2020, the Company refinanced its existing Term Loan and Revolver by entering into two separate Credit Agreements (the "New Credit Agreements") with BMO and Goldman Sachs Specialty Lending Group, L.P. ("Goldman") and Guggenheim Credit Services, LLC ("Guggenheim"), as lenders (collectively, the "Refinance Lenders"). Pursuant to the credit agreement related to the revolving credit facility, BMO has provided the Company, Curation Foods and Lifecore, as co-borrowers, with an up to $75.0 million revolving line of credit (the "Refinance Revolver") and serves as administrative agent of the Refinance Revolver. Pursuant to the credit agreement related to the term loan, Goldman and Guggenheim have provided the Company, Curation Foods and Lifecore, as co-borrowers, with an up to $170.0 million term loan facility (split equally between Goldman and Guggenheim) (the "Refinance Term Loan") and Goldman serves as administrative agent of the Refinance Term Loan. The Refinance Revolver and Refinance Term Loan are guaranteed, and secured by, substantially all of the Company's and the Company's direct and indirect subsidiaries' assets.

The Refinance Term Loan matures on December 31, 2025. The Refinance Revolver matures on December 31, 2025 or, if the Refinance Term Loan remains outstanding on such date, ninety (90) days prior to the maturity date of the Refinance Term Loan (on October 2, 2025).

The Refinance Term Loan provides for principal payments by the Company of 5% per annum, payable quarterly in arrears in equal installments, commencing on March 30, 2023, with the remainder due at maturity.

Interest on the Refinance Revolver is based upon the Company's average availability, at a per annum rate of either (i) LIBOR rate plus a spread of between 2.00% and 2.50% or (ii) base rate plus a spread of between 1.00% and 1.50%, plus a commitment fee, as applicable, of 0.375%. Interest on the Refinance Term Loan is at a per annum rate based on either (i) the base rate plus a spread of 7.50% or (ii) the LIBOR rate plus a spread of 8.50%. The Refinance Term Loan Credit Agreement also provides that in the event of a prepayment of any amount other than the scheduled installments within twelve months after the closing date, a penalty will be assessed equal to the aggregate amount of interest that would have otherwise been payable from date of prepayment event until twelve months after the closing date plus 3% of the amount prepaid.

The New Credit Agreements provide the Company the right to increase the revolver commitments under the Refinance Revolver, subject to the satisfaction of certain conditions (including consent from BMO), by obtaining additional commitments from either BMO or another lending institution at an amount of up to $15.0 million.

The New Credit Agreements contain customary financial covenants and events of default under which the obligations thereunder could be accelerated and/or the interest rate increased in specified circumstances.

In connection with the New Credit Agreements, the Company incurred debt issuance costs from the lender and third-parties of $10.3 million.

Concurrent with the close of the New Credit Agreements, the Company repaid all outstanding borrowings under the current Credit Agreement, and terminated the Credit Agreement. In connection with the repayment of borrowings under the Credit Agreement, the Company recognized a loss in fiscal year 2021 of $1.1 million, as a result of the non-cash write-off of unamortized debt issuance costs related to the refinancing under the New Credit Agreements.

In April 2022 the Company amended the New Credit Agreement to make available again $20.0 million of term debt that that had been previously repaid. In connection with this amendment, the Company incurred debt issuance costs from the lender of $0.7 million.

As of May 29, 2022, $40.0 million was outstanding on the Refinance Revolver, at an interest rate of 3.00%. As of May 29, 2022, the Refinance Term Loan had an interest rate of 9.5%. As of May 29, 2022, the Company was in compliance with all financial covenants and had no events of default under the New Credit Agreements.

Long-term debt consists of the following as of May 29, 2022 and May 30, 2021 (in thousands):

	May 29, 2022	May 30, 2021
Term loan	$ 103,712	$ 170,000
Total principal amount of long-term debt	103,712	170,000
Less: unamortized debt issuance costs	(5,534)	(5,098)
Total long-term debt, net of unamortized debt issuance costs	98,178	164,902
Less: current portion of long-term debt, net	(599)	—
Long-term debt, net	$ 97,579	$ 164,902

The future minimum principal payments of the Company's debt for each year presented are as follows (in thousands):

	Term Loan
Fiscal year 2023	2,125
Fiscal year 2024	8,469
Fiscal year 2025	8,422
Fiscal year 2026	84,696
Total	$ 103,712

Derivative Instruments

On November 1, 2016, the Company entered into an interest rate swap contract (the "2016 Swap") with BMO at a notional amount of $50.0 million. The 2016 Swap had the effect of changing the Company's previous Term Loan obligation from a variable interest rate to a fixed 30-day LIBOR rate of 1.22%. The 2016 Swap matured in September 2021.

On June 25, 2018, the Company entered into an interest rate swap contract (the "2018 Swap") with BMO at a notional amount of $30.0 million. The 2018 Swap had the effect on our previous debt of converting the first $30.0 million of the total outstanding amount of the Company's 30-day LIBOR borrowings from a variable interest rate to a fixed 30-day LIBOR rate of 2.74%%. The 2018 Swap matured in September 2021.

On December 2, 2019, the Company entered into an interest rate swap contract (the "2019 Swap") with BMO at a notional amount of $110.0 million which decreases quarterly. The 2019 Swap had the effect on our previous debt of converting primarily all of the $110.0 million of the total outstanding amount of the Company's 30-day LIBOR borrowings from a variable interest rate to a fixed 30-day LIBOR rate of 1.53%. The 2019 Swap will mature in November 2022 and its value is de minimis.

7. Income Taxes

The (benefit) provision for income taxes from continuing operations consisted of the following:

(in thousands)	Year Ended		
	May 29, 2022	May 30, 2021	May 31, 2020
Current:			
Federal	$ —	$ (38)	$ (7,723)
State	23	74	38
Foreign	356	56	56
Total	379	92	(7,629)
Deferred:			
Federal	(5,562)	(1,536)	(983)
State	(656)	(459)	(162)
Total	(6,218)	(1,995)	(1,145)
Income tax benefit	$ (5,839)	$ (1,903)	$ (8,774)

The actual (benefit) provision for income taxes from continuing operations differs from the statutory U.S. federal income tax rate as follows:

(in thousands)	Year Ended		
	May 29, 2022	May 30, 2021	May 31, 2020
Tax at U.S. statutory rate (1)	$ (10,904)	$ (2,409)	$ (6,435)
State income taxes, net of federal benefit	(1,639)	(304)	(1,048)
Tax reform/CARES Act	—	—	(2,770)
Change in valuation allowance	6,040	2,667	2,014
Tax credit carryforwards	(436)	(606)	(613)
Other compensation-related activity	234	249	334
Impairment of goodwill	2,347	—	647
Foreign rate differential	(496)	(1,414)	(986)
Other	(985)	(86)	83
Income tax benefit	$ (5,839)	$ (1,903)	$ (8,774)

(1) Statutory rate was 21.0% for fiscal year 2022, 2021 and 2020.

The effective tax rate for fiscal year 2022 changed from a tax provision benefit of 16.59% to a tax provision benefit of 11.20% in comparison to fiscal year 2021 after adjustment for discontinued operations. The decrease in the effective tax rate for fiscal year 2022 was primarily due to a significant valuation allowance increase and the impairment of Yucatan Foods goodwill. The income tax benefit from discontinued operations for fiscal years 2022, 2021, and 2020 of $0.1 million, $5.9 million, and $4.3 million are not included in the above income tax benefit from continuing operations.

The effective tax rate for fiscal year 2021 changed from a tax provision benefit of 28.63% to a tax provision benefit of 16.59% in comparison to fiscal year 2020 after adjustment for discontinued operations. The decrease in the income tax benefit for fiscal year 2021 was primarily due to significant decrease in the Company's loss before tax from continuing operations, and the increase in change in valuation allowance which offsets federal and state research and development credits, and $2.8 million of NOL carryback benefit applied only for fiscal year 2020.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. The CARES Act includes, among other items, provisions relating to refundable payroll tax credits, deferment of the employer portion of certain payroll taxes, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property.

The CARES Act allows losses incurred in tax years 2018, 2019, and 2020 to be carried back to each of the five preceding tax years and to offset 100% of regular taxable income. Additionally, the CARES Act accelerates the Company's ability to receive refunds of alternative minimum tax credits generated in prior tax years. In fiscal year 2020, the Company was able to benefit net operating losses generated in fiscal year 2019 and fiscal year 2020 at the 21% federal statutory rate in effect for those years and carried back to tax years with a 35% federal statutory rate thus recognizing a tax provision benefit of $2.8 million during the year ended May 31, 2020.

Significant components of deferred tax assets and liabilities reported in the accompanying Consolidated Balance Sheets consisted of the following:

(in thousands)	Year Ended	
	May 29, 2022	May 30, 2021
Deferred tax assets:		
Accruals and reserves	$ 867	$ 3,366
Net operating loss carryforwards	28,558	21,916
Stock-based compensation	880	1,123
Research and AMT credit carryforwards	5,611	5,150
Lease liability	2,874	5,902
Limitations on business interest expense	4,245	2,411
Goodwill and other indefinite life intangibles	1,426	—
Other	750	927
Gross deferred tax assets	45,211	40,795
Valuation allowance	(31,848)	(10,460)
Net deferred tax assets	13,363	30,335
Deferred tax liabilities:		
Depreciation and amortization	(11,495)	(16,600)
Goodwill and other indefinite life intangibles	—	(13,406)
Basis difference in investment in non-public company	—	(1,382)
Right of use asset	(2,100)	(5,087)
Deferred tax liabilities	(13,595)	(36,475)
Net deferred tax liabilities	$ (232)	$ (6,140)

The effective tax rates for fiscal years 2022 and 2021 differ from the blended statutory federal income tax rate of 21% as a result of several factors, including the change in valuation allowance related with federal, state and foreign deferred balances, foreign rate differential, change in ending state deferred blended rate, impairment of goodwill and intangibles, and the benefit of federal and state research and development credits.

The effective tax rates for fiscal year 2020 differ from the blended statutory federal income tax rate of 21% as a result of several factors, including carryback of net operating losses, the change in valuation allowance related with state and foreign deferred balances, foreign rate differential, change in ending state deferred blended rate, impairment of goodwill and fixed assets, and the benefit of federal and state research and development credits.

As of May 29, 2022, the Company had federal, foreign, California, Indiana, and other state net operating loss carryforwards of approximately $74.1 million, $25.9 million, $37.7 million, $30.6 million, and $20.8 million respectively. These losses expire in different periods through 2032, if not utilized. The Company acquired additional net operating losses through the acquisition of Greenline. Utilization of these acquired net operating losses in a specific year is limited due to the "change in ownership" provision of the Internal Revenue Code of 1986 and similar state provisions. The net operating losses presented above for federal and state purposes is net of any such limitation.

As of May 29, 2022, the Company has federal, California, and Minnesota research and development tax credit carryforwards of approximately $2.8 million, $2.1 million, and $1.4 million, respectively. The research and development tax credit carryforwards have an unlimited carryforward period for California purposes, 20 year carryforward for federal purposes, and 15 year carryforward for Minnesota purposes.

Valuation allowances are reviewed each period on a tax jurisdiction by jurisdiction basis to analyze whether there is sufficient positive or negative evidence to support a change in judgment about the realizability of the related deferred tax assets. Based on this analysis and considering all positive and negative evidence, we determined that as of May 29, 2022, a valuation allowance of $15.5 million, $8.2 million, and $8.1 million should be recorded as a result of uncertainty around the utilization of federal, state, and foreign net operating losses, and federal capital loss carryforward.

The accounting for uncertainty in income taxes recognized in an enterprise's financial statements prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and the derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(in thousands)	Year Ended		
	May 29, 2022	May 30, 2021	May 31, 2020
Unrecognized tax benefits – beginning of the period	$ 942	$ 827	$ 616
Gross increases – tax positions in prior period	—	—	101
Gross decreases – tax positions in prior period	—	—	(11)
Gross increases – current-period tax positions	83	115	121
Unrecognized tax benefits – end of the period	$ 1,025	$ 942	$ 827

As of May 29, 2022 the total amount of net unrecognized tax benefits is $1.0 million, of which, $0.9 million, if recognized, would affect the effective tax rate. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. The total amount of penalties and interest is not material as of May 29, 2022. The Company does not expect its unrecognized tax benefits to decrease within the next twelve months.

Due to tax attribute carryforwards, the Company is subject to examination for tax years 2013 forward for U.S. tax purposes. The Company was also subject to examination in various state jurisdictions for tax years 2012 forward, none of which were individually material.

8. Leases

Operating Leases

The Company has entered into various non-cancellable operating lease agreements for manufacturing and distribution facilities, vehicles, equipment and office space. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. Landec leases facilities and equipment under operating lease agreements with various terms and conditions, which expire at various dates through fiscal year 2033. Certain of these leases have renewal options.

Finance Leases

On September 3, 2015, Lifecore leased an 80,950 square foot building in Chaska, MN, two miles from its current facility. The initial term of the lease is seven years with two five-year renewal options. The lease contains a buyout option at any time after year seven with the purchase price equal to the mortgage balance on the lessor's loan secured by the building. Gross assets recorded under finance leases, included in property and equipment, net, were $3.8 million as of both May 29, 2022 and May 30, 2021. Accumulated amortization associated with finance leases was $0.7 million and $0.6 million as of May 29, 2022 and May 30, 2021, respectively. The monthly lease payment was initially $34,000 and increases by 2.4% per year. Lifecore and the lessor made capital improvements prior to occupancy and thus the lease did not become effective until January 1, 2016. Lifecore is currently using the building for warehousing and final packaging.

The components of lease cost were as follows:

(In thousands, except term and discount rate)	Year Ended May 29, 2022	Year Ended May 30, 2021
Finance lease cost:		
Amortization of leased assets	$ 113	$ 117
Interest on lease liabilities	335	348
Operating lease cost	2,212	2,291
Variable lease cost and other	134	15
Sublease income	(90)	(90)
Total lease cost	$ 2,704	$ 2,681
Weighted-average remaining lease term:		
Operating leases	7.41	14.35
Finance leases	0.59	1.60
Weighted-average discount rate:		
Operating leases	4.78 %	5.00 %
Finance leases	10.00 %	10.00 %

The Company's leases have original lease periods ending between 2022 and 2033. The Company's maturity analysis of operating and finance lease liabilities as of May 29, 2022 are as follows:

(in thousands)	Operating Leases	Finance Leases	Total
2023	$ 2,330	$ 3,475	$ 5,805
2024	2,243	10	2,253
2025	2,002	—	2,002
2026	1,928	—	1,928
2027	1,409	—	1,409
Thereafter	3,793	—	3,793
Total lease payments	13,705	3,485	17,190
Less: interest	(1,991)	(190)	(2,181)
Present value of lease liabilities	11,714	3,295	15,009
Less: current obligation of lease liabilities	(1,743)	(3,283)	(5,026)
Total long-term lease liabilities	$ 9,971	$ 12	$ 9,983

Supplemental cash flow information related to leases are as follows:

(in thousands)	Year Ended May 29, 2022	Year Ended May 30, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 2,454	$ 2,089
Operating cash flows from finance leases	335	348
Financing cash flows from finance leases	129	110
Lease liabilities arising from obtaining right-of-use assets:		
Operating leases	$ 37	$ 3,137

During May 2021 we entered into a transportation management, warehousing, and transportation services agreement with Castellini Company, LLC to outsource Curation Foods' fresh packaged salads and vegetables logistics management, including transportation, warehousing and distribution. In connection with this arrangement, during the fiscal year ended May 30, 2021 the Company recorded a $1.7 million impairment of our operating lease right-of-use assets related to certain vehicle leases, which is included in Loss from discontinued operations within the Consolidated Statements of Operations.

As disclosed in Note 13 - Restructuring Costs, impairments of our operating lease right-of-use assets related to the Curation Foods Santa Maria office lease of $1.6 million and our Curation Foods Los Angeles, California office lease of $0.4 million were recorded in Restructuring cost in the accompanying Consolidated Statements of Operations for the year ended May 29, 2022.

9. Commitments and Contingencies

Purchase Commitments

At May 29, 2022, the Company was committed to purchase $54.9 million of raw materials. For the fiscal years ended May 29, 2022, May 30, 2021 and May 31, 2020, purchases related to long term commitments under take or pay agreements were $5.1 million, $3.0 million, and $3.4 million, respectively.

Legal Contingencies

In the ordinary course of business, the Company is involved in various legal proceedings and claims.

The Company makes a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least each fiscal quarter and adjusted to reflect the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. Legal fees are expensed in the period in which they are incurred.

Claims Alleging Unfair Labor Practices

Curation Foods has been the target of a union organizing campaign which has included three unsuccessful attempts to unionize Curation Foods' Guadalupe, California processing plant. The campaign has involved a union and over 100 former and current employees of Pacific Harvest, Inc. and Rancho Harvest, Inc. (collectively "Pacific Harvest"), Curation Foods' former labor contractors at its Guadalupe, California processing facility, bringing legal actions before various state and federal agencies, the California Superior Court, and initiating over 100 individual arbitrations against Curation Foods and Pacific Harvest.

The legal actions consisted of various claims, all of which were settled in fiscal year 2017. Under the settlement agreement, the plaintiffs were to be paid in three installments. The Company and Pacific Harvest each agreed to pay one half of the settlement payments. The Company paid the entire first two installments and Pacific Harvest agreed to reimburse the Company for its $2.1 million portion. As of May 30, 2021, the outstanding balance of the receivable was $1.2 million. The Company makes ongoing estimates relating to the collectability of receivables. A reserve is established for any note when there is reasonable doubt that the principal or interest will be collected in full. The Company may write-off uncollectable receivables after collection efforts are exhausted. During the fiscal year 2020, the Company's review for collectability concluded that a receivable reserve of $1.2 million would be recorded. The Company's conclusion regarding collectability changed as a result of Pacific Harvest communicating their refusal to pay combined with their bringing claims against the Company. During the fiscal year ended May 30, 2021, the Company agreed to discharge Pacific Harvest from the $1.2 million receivable as part of a settlement agreement with Pacific Harvest (see other litigation matters section below for additional information).

Compliance Matters

On December 1, 2018, the Company acquired all of the voting interests and substantially all of the assets of Yucatan Foods (the "Yucatan Acquisition"), which owns a guacamole manufacturing plant in Mexico called Procesadora Tanok, S de RL de C.V. ("Tanok").

On October 21, 2019, the Company retained Latham & Watkins, LLP to conduct an internal investigation relating to potential environmental and Foreign Corrupt Practices Act ("FCPA") compliance matters associated with regulatory permitting at the Tanok facility in Mexico. The Company subsequently disclosed to the U.S. Securities and Exchange Commission ("SEC") and the U.S. Department of Justice ("DOJ") the conduct under investigation, and these agencies have commenced an investigation. The Company has also disclosed the conduct under investigation to the Mexican Attorney General's Office, which has commenced an investigation, and to Mexican regulatory agencies. The Company is cooperating in the government investigations and requests for information. The conduct at issue began prior to the Yucatan Acquisition, and the agreement for the Yucatan Acquisition provides the Company with certain indemnification rights that may allow the Company to recover the cost of a portion of the liabilities that have been and may be incurred by the Company in connection with these compliance matters. On September 2, 2020, one of the former owners of Yucatan filed a lawsuit against the Company in Los Angeles County Superior Court for breach of employment agreement, breach of contract, breach of holdback agreement, declaratory relief and accounting, and related claims. The Plaintiff seeks over $10 million in damages, including delivery of shares of his stock held in escrow for the indemnification claims described above. On November 3, 2020, the Company filed an answer and cross-complaint against the Plaintiff and other parties for fraud, indemnification, and other claims, and seeking no less than $80 million in damages.

At this stage, the ultimate outcome of these or any other investigations, legal actions, or potential claims that may arise from the matters under investigation is uncertain and the Company cannot reasonably predict the timing or outcomes, or estimate the amount of net loss after indemnification, or its effect, if any, on its financial statements. Separately, there are indemnification provisions in the purchase agreement that may allow the Company to recover costs for fraud or breach of the purchase agreement from the seller. Because recovery of amounts are contingent upon a legal settlement, no amounts have been recorded as recoverable costs through May 29, 2022.

During the third quarter of fiscal year 2021 the Company reached a resolution with its insurance carrier that resulted in a recovery of $1.6 million which is recorded as a reduction of selling, general and administrative in the Consolidated Statements of Operations for the fiscal year ended May 30, 2021. Absent further material developments in the investigation, the Company does not expect additional material recovery from the insurance carrier.

Other Litigation Matters

On February 10, 2020, a complaint was filed against Curation Foods in the United States District Court for the Northern District of Georgia, *Printpack, Inc. v. Curation Foods, Inc.*, alleging breach of contract pertaining to Curation Foods' purchase of certain poly film packaging from the plaintiff. The plaintiff was seeking an unspecified amount of monetary damages, litigation expenses, and interest. Through several negotiations and discussions between the Company and Printpack, an agreement was reached and a Notice of Voluntary Dismissal was filed on May 29, 2020. This dismisses the case against the Company with no other further legal action required.

On February 14, 2020, a complaint was filed against the Company, Curation Foods, the Company's current CEO Albert Bolles, and the Company's former CFO Gregory Skinner (collectively, the "Landec Parties"), and other defendants in Santa Barbara County Superior Court, entitled Pacific Harvest, Inc., et al. v. Curation Foods, Inc., et al. (No. 20CV00920). The case was brought by Pacific Harvest, Inc. ("Pacific") and Rancho Harvest, Inc. ("Rancho"), two related companies that have provided labor and employee staffing services to Curation Foods. Among other things, Pacific and Rancho allege that Curation Foods wrongfully decreased its use of Pacific's staffing services and misappropriated Pacific's trade secrets when Curation Foods increased its use of another staffing company and transitioned Pacific's employees to the other staffing company. Pacific and Rancho also allege that Curation Foods breached agreements between the parties related to a loan from Curation Foods, on which Pacific and Rancho have ceased making payments. Pacific Harvest and Rancho asserted claims for breach of contract, breach of the implied covenant of good faith and fair dealing, intentional interference with contracts and potential economic advantage, misappropriation of trade secrets under California's Uniform Trade Secrets Act, business practices in violation of California Unfair Competition Law, fraud, defamation, violation of California Usury Law, breach of fiduciary duty, and declaratory relief regarding the parties' rights and obligations under certain of the parties' contracts. On March 15, 2021, the Company executed a settlement agreement related to this matter. In connection with the settlement agreement, the Company recorded a $1.8 million charge after considering the total settlement amount and insurance recoveries, and this amount is included in Legal settlement charge in the Consolidated Statements of Operations for the fiscal year ended May 30, 2021. The final settlement amount was paid to the plaintiffs by Curation Foods, its co-defendants, and insurers on April 14, 2021. Pursuant to the settlement agreement, the case was dismissed with prejudice on April 23, 2021.

In June of 2021 a complaint was filed against the company alleging multiple wage and hour claims. On June 6, 2022 the Company reached an agreement to settle all causes of action alleged by the Plaintiff under the California Labor Code, the California Business and Professionals Code, the applicable Wage Order, and the Private Attorneys General Act (the "PAGA"). In connection with the settlement agreement the Company recorded a $0.5 million charge, and this amount is included in Loss from discontinued operations costs in the Consolidated Statements of Operations for the fiscal year ended May 29, 2022.

10. Business Segment Reporting

The Company operates using three strategic reportable business segments, aligned with how the Chief Executive Officer, who is the chief operating decision maker ("CODM"), manages the business: the Lifecore segment, the Curation Foods segment, and the Other segment.

The Lifecore segment sells products utilizing hyaluronan, a naturally occurring polysaccharide that is widely distributed in the extracellular matrix of connective tissues in both animals and humans, and non-HA products for medical use primarily in the Ophthalmic, Orthopedic and other markets.

The Curation Foods business includes (i) three natural food brands, including *O* Olive Oil & Vinegar, Yucatan Foods, and Cabo Fresh and (ii) BreatheWay® activities. The Curation Foods segment includes sales of BreatheWay packaging to partners for fruit and vegetable products, sales of olive oils and wine vinegars under the *O* brand, and sales of avocado products under the brands Yucatan Foods and Cabo Fresh. In December 2021, the Company completed the Eat Smart Disposition. As a result, the Company met the requirements of ASC 205-20 to report the results of the Eat Smart business as discontinued operations. The operating results for the Eat Smart business, in all periods presented, have been reclassified to discontinued operations and are no longer reported in the Curation Foods business segment. See Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies – Eat Smart Sale and Discontinued Operations for further discussion.

The Other segment includes corporate general and administrative expenses, non-Lifecore and non-Curation Foods interest expense, interest income, and income tax expenses. Corporate overhead is allocated between segments based on actual utilization and relative size.

All of the Company's assets are located within the United States of America except for its Yucatan production facility in Mexico. The following table presents our property and equipment, net by geographic region (in millions):

	Year Ended	
Property and equipment, net	May 29, 2022	May 30, 2021
United States	$ 115.0	$ 105.3
Mexico	15.4	15.0
Total property and equipment, net	$ 130.4	$ 120.3

The Company’s international sales by geography are based on the billing address of the customer and were as follows (in millions):

	Year Ended		
	May 29, 2022	May 30, 2021	May 31, 2020
Switzerland	$ 16.8	$ 4.7	$ 1.7
Canada	$ 12.6	$ 10.7	$ 9.7
Czech Republic	$ 3.5	$ 3.5	$ 1.4
United Kingdom	$ 2.9	$ 1.9	$ 1.1
Ireland	$ 2.2	$ 2.0	$ 4.0
Belgium	$ —	$ 13.7	$ 13.8
All Other Countries	$ 2.0	$ 1.9	$ 2.2

Operations by segment consisted of the following (in thousands):

Year Ended May 29, 2022	Lifecore	Curation Foods	Other	Total
Product sales	$ 109,320	$ 76,466	$ —	$ 185,786
Gross profit	43,746	6,624	—	50,370
Net income (loss) from continuing operations	16,675	(30,429)	(32,522)	(46,276)
Loss from discontinued operations, net of tax	—	(48,114)	(3,041)	(51,155)
Identifiable assets	213,969	76,948	4,243	295,160
Depreciation and amortization	6,673	4,004	80	10,757
Capital expenditures	23,552	2,674	—	26,226
Interest income	72	—	9	81
Interest expense, net	—	(299)	(17,058)	(17,357)
Income tax (benefit) expense	5,266	(13,831)	2,726	(5,839)
Corporate overhead allocation	4,484	1,092	(5,576)	—
Year Ended May 30, 2021				
Product sales	$ 98,087	$ 73,459	$ —	$ 171,546
Gross profit	38,265	12,206	—	50,471
Net income (loss) from continuing operations	14,461	(357)	(23,673)	(9,569)
Loss from discontinued operations, net of tax	—	(23,096)	—	(23,096)
Identifiable assets	185,417	121,069	4,680	311,166
Depreciation and amortization	5,502	2,972	97	8,571
Capital expenditures	16,222	3,042	—	19,264
Interest income	—	—	48	48
Interest expense, net	—	(545)	(9,842)	(10,387)
Income tax (benefit) expense	4,568	(3,020)	(3,451)	(1,903)
Corporate overhead allocation	4,773	946	(5,719)	—
Year Ended May 31, 2020				
Product sales	$ 85,833	$ 74,233	$ —	$ 160,066
Gross profit	32,883	6,504	—	39,387
Net income (loss) from continuing operations	11,749	(17,728)	(15,892)	(21,871)
Loss from discontinued operations, net of tax	—	(16,320)	—	(16,320)
Identifiable assets	165,461	117,427	10,613	293,501
Depreciation and amortization	5,008	3,282	96	8,386
Capital expenditures	10,612	1,472	130	12,214
Interest income	—	6	66	72
Interest expense, net	—	(547)	(4,099)	(4,646)
Income tax (benefit) expense	3,346	(8,686)	(3,434)	(8,774)
Corporate overhead allocation	4,190	868	(5,058)	—

11. Quarterly Consolidated Financial Information (unaudited)

The following is a summary of the unaudited quarterly results of operations for fiscal years 2022 and 2012 (in thousands, except for per share amounts):

Fiscal Year 2022	1st Quarter	2nd Quarter	*As restated* 3rd Quarter	4th Quarter	Annual
Product sales	$ 41,632	$ 43,452	$ 53,074	$ 47,628	$ 185,786
Gross profit	10,403	14,635	13,220	12,112	50,370
Net (loss) income from continuing operations	(7,214)	3,675	(8,301)	(34,436)	(46,276)
Net (loss) income from discontinued operations	(2,295)	(42,196)	(4,785)	(1,879)	(51,155)
Net (loss) income per basic and diluted share from continuing operations	$ (0.25)	$ 0.12	$ (0.28)	$ (1.16)	$ (1.57)
Net (loss) income per basic and diluted share from discontinued operations	$ (0.08)	$ (1.44)	$ (0.16)	$ (0.06)	$ (1.74)

Fiscal Year 2021	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Product sales	$ 41,995	$ 39,945	$ 44,690	$ 44,916	$ 171,546
Gross profit	7,849	13,601	14,441	14,580	50,471
Net (loss) income from continuing operations	(4,957)	(2,367)	(1,465)	(780)	(9,569)
Net (loss) income from discontinued operations	(6,044)	(10,934)	(4,033)	(2,085)	(23,096)
Net (loss) income per basic and diluted share from continuing operations	$ (0.17)	$ (0.08)	$ (0.05)	$ (0.03)	$ (0.33)
Net (loss) income per basic and diluted share from discontinued operations	$ (0.21)	$ (0.37)	$ (0.14)	$ (0.07)	$ (0.79)

Fiscal year 2022 third quarter has been restated for the correction of an error. Fiscal year 2022 first quarter and second quarter for been revised for an immaterial correction of an error. See Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies – Correction of Error in Previously Reported Fiscal Year 2022 Interim Financial Statements (Unaudited) for additional information.

12. Discontinued Operations

As discussed in Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies – Eat Smart Sale and Discontinued Operations, on December 13, 2021, we completed the Eat Smart Disposition. Eat Smart represented a component of the business within the Curation Foods segment and its sale represents a strategic shift in the Company going forward. Accordingly, concurrent with the execution of the Asset Purchase Agreement, Eat Smart meets the accounting requirements for reporting as discontinued operations for all periods presented.

The key components of loss from discontinued operations for the fiscal years ended May 29, 2022, May 30, 2021, and May 31, 2020 were as follows (in thousands):

	Year Ended		
	May 29, 2022	May 30, 2021	May 31, 2020
Product sales	$ 186,755	$ 372,615	$ 430,300
Cost of product sales	181,555	341,612	394,699
Gross profit	5,200	31,003	35,601
Operating costs and expenses:			
Research and development	1,918	2,799	3,517
Selling, general and administrative	13,350	27,704	31,514
Impairment of goodwill	32,057	—	—
Loss on sale of Eat Smart	336	—	—
Restructuring costs	6,133	13,862	13,231
Total operating costs and expenses	53,794	44,365	48,262
Operating loss	(48,594)	(13,362)	(12,661)
Dividend income	—	1,125	1,125
Interest income	—	—	31
Interest expenses	(2,682)	(4,957)	(4,957)
Other income (expense), net	—	(11,800)	(4,200)
Loss from discontinued operations before taxes	(51,276)	(28,994)	(20,662)
Income tax benefit	121	5,898	4,342
Loss from discontinued operations, net of tax	$ (51,155)	$ (23,096)	$ (16,320)

Cash provided by (used in) operating activities by the Eat Smart business totaled $(16.5) million, $(1.4) million, and $13.8 million for the twelve months ended May 29, 2022, May 30, 2021, and May 31, 2020, respectively. Cash provided by (used in) investing activities from the Eat Smart business totaled $108.0 million, $8.4 million, and $(14.1) million for the twelve months ended May 29, 2022, May 30, 2021, and May 31, 2020, respectively. Depreciation and amortization expense of the Eat Smart business totaled $5.3 million, $9.4 million, and $10.0 million for the twelve months ended May 29, 2022, May 30, 2021, and May 31, 2020, respectively. Capital expenditures of the Eat Smart business totaled $1.8 million, $4.5 million, and $14.5 million for the twelve months ended May 29, 2022, May 30, 2021, and May 31, 2020, respectively.

Interest expense was allocated to discontinued operations based on the interest expense related to the amount of debt required to be paid down under the New Credit Agreements as a result of the Eat Smart Disposition.

The carrying amounts of the major classes of assets and liabilities of the Eat Smart business included in assets and liabilities of discontinued operations are as follows (in thousands):

	May 30, 2021
ASSETS	
Cash and cash equivalents	$ 136
Accounts receivable, less allowance for credit losses	28,583
Inventories	6,587
Prepaid expenses and other current assets	2,312
Total current assets, discontinued operations	37,618
Investment in non-public company, fair value	45,100
Property and equipment, net	59,273
Operating lease right-of-use assets	3,729
Goodwill	35,470
Trademarks/tradenames, net	8,228
Customer relationships, net	2,260
Other assets	80
Total other assets, discontinued operations	154,140
Total assets, discontinued operations	$ 191,758
LIABILITIES	
Accounts payable	$ 31,271
Accrued compensation	4,550
Other accrued liabilities	4,041
Current portion of lease liabilities	2,289
Deferred revenue	493
Total current liabilities, discontinued operations	42,644
Long-term lease liabilities	3,252
Other non-current liabilities	729
Non-current liabilities, discontinued operations	3,981
Total liabilities, discontinued operations	$ 46,625

13. Restructuring Costs

During fiscal year 2020, the Company announced a restructuring plan to drive enhanced profitability, focus the business on its strategic assets and redesign the organization to be the appropriate size to compete and thrive. This includes a reduction-in-force, a reduction in leased office spaces and the sale of non-strategic assets.

The following table summarizes the restructuring costs recognized in the Company’s Consolidated Statements of Operations, by Business Segment for the fiscal year ended May 29, 2022:

(In thousands) *Year Ended May 29, 2022*	Curation Foods	Other	Total
Asset write-off costs	$ 3,693	$ —	$ 3,693
Employee severance and benefit costs	371	—	371
Lease costs	2,072	—	2,072
Other restructuring costs	289	2,536	2,825
Total restructuring costs	$ 6,425	$ 2,536	$ 8,961

Asset Write-off Costs

Asset write-off costs are costs related to impairment or disposal of property and equipment as part of the Company's restructuring plan to drive enhanced profitability, focus the business on its strategic assets and redesign the organization to be the appropriate size to compete and thrive. These costs are included in restructuring costs within the Consolidated Statements of Operations.

During the fiscal year ended May 31, 2020, the Company closed escrow on the San Rafael, California property and recognized a $0.4 million impairment loss, which is included in Restructuring costs within the Consolidated Statements of Operations. The Company received net cash proceeds of $2.4 million in connection with the sale.

In the fourth quarter of fiscal year 2020, the Company recognized a $1.9 million impairment loss related to BreatheWay equipment as a result of a strategic shift in our BreatheWay business model driven by our restructuring plan. In the third quarter of fiscal year 2021, the Company recognized an additional $1.9 million impairment loss related to BreatheWay equipment as a result of a strategic shift in our BreatheWay business model driven by our restructuring plan.

The Company leases its main office located in Santa Maria, California (the "Santa Maria Office"). During the third quarter of fiscal year 2022, the Company approved a plan to explore opportunities to sub lease its Santa Maria Office. The Santa Maria Office assets, included as lease hold improvements within property and equipment, net, has been designated as held for use within the Consolidated Balance Sheets as of May 29, 2022, as no finalized plan for disposition existed at the balance sheet date. The Company recognized a $5.3 million impairment loss, which is included in Restructuring costs within the Consolidated Statements of Operations ($3.7 million included in asset write-off costs related to lease hold improvements impairment and $1.6 million included in lease costs related to right-of-use asset impairment). The Company expects to complete the sublease plan within the next 12 months.

Employee Severance and Benefit Costs

Employee severance and benefit costs are costs incurred as a result of reduction-in-force driven by our restructuring plan and closure of offices and facilities. These costs were driven primarily by the closure of our San Rafael, California office, Santa Clara, California office, and Los Angeles, California office.

Lease Costs

In August 2020, the Company closed its leased Santa Clara, California office and entered into a sublease agreement. In the fourth quarter of fiscal year 2020 the Company closed its leased Los Angeles, California office and plans to sublease the office. As noted in the Asset write-off costs section, the Company approved a plan to explore opportunities to sublease its Santa Maria Office and expects to complete the sublease plan within the next 12 months.

Other restructuring costs

Other restructuring costs primarily related to consulting costs to execute the Company's restructuring plan to drive enhanced profitability, focus the business on its strategic assets, and redesign the organization to be the appropriate size to compete and thrive.

The following table summarizes the restructuring costs recognized in the Company's Consolidated Statements of Operations by Business Segment, since inception of the restructuring plan in fiscal year 2020 through the fiscal year ended May 29, 2022, excluding discontinued operations:

(In thousands)	Curation Foods	Other	Total
Asset write-off costs	$ 7,552	$ 418	$ 7,970
Employee severance and benefit costs	559	784	1,343
Lease costs	2,218	26	2,244
Other restructuring costs	323	4,898	5,221
Total restructuring costs	$ 10,652	$ 6,126	$ 16,778

The total expected cost related to the restructuring plan is approximately $23.0 million.

14. Subsequent Events

Sale of BreatheWay Business Assets

On June 2, 2022, the Company and Curation Foods entered into and closed an Asset Purchase Agreement (the "Purchase Agreement") with Hazel Technologies, Inc. (the "Purchaser"), pursuant to which Curation Foods sold all of its assets related to BreatheWay packaging technology business to the Purchasers in exchange for an aggregate purchase price of $3.2 million (the "BreatheWay Sale"). The Purchase Agreement included various representations, warranties and covenants of the parties generally customary for a transaction of this nature. The Company expects to record a gain of $2.0 in the first quarter of fiscal year 2023 related to this transaction.

(b)Index of Exhibits.

Exhibit Number	Exhibit Title
2.1	Asset Purchase Agreement, dated June 1, 2021, by and among the Company, Curation Foods, and Taylor Farms Retail, Inc., incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on December 17, 2021.
3.1	Certificate of Incorporation of the Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on November 7, 2008.
3.2	Amended and Restated By-Laws of the Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on October 16, 2012.
3.3	Amendment No. 1 to By-Laws of the Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 7, 2019.
3.4	Amendment No. 2 to By-Laws of the Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 24, 2019.
3.5	Amendment No. 3 to By-Laws of the Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on October 19, 2020.
4.1+	Description of Capital Stock.
10.1	Form of Indemnification Agreement incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 17, 2018.
10.2*	Landec Corporation Nonqualified Deferred Compensation Plan, incorporated herein by reference to the Registrant's Annual Report on Form 10-K filed on August 7, 2013.
10.3*	Landec Corporation 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on October 11, 2013.
10.4*	First Amendment to the Landec Corporation 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on October 23, 2017.
10.5*	Form of Stock Grant Agreement for the Landec Corporation 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on October 11, 2013.
10.6*	Form of Notice of Stock Option Grant and Stock Option Agreement for the Landec Corporation 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on October 11, 2013.
10.7*	Form of Stock Unit Agreement for the Landec Corporation 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on October 11, 2013.
10.8*	Form of Notice of Grant of Stock Appreciation Right and Stock Appreciation Right Agreement for the Landec Corporation 2013 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on October 11, 2013.
10.9*	Landec Corporation 2019 Stock Incentive Plan, including the forms of awards attached thereto, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on October 21, 2019. 2019 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated October 21, 2019.
10.10*	Long-Term Incentive Plan for Fiscal Year 2020, incorporated herein by reference to Registrant's Current Report on Form 8-K filed on July 24, 2017.

Exhibit Number	Exhibit Title
10.11*	Long-Term Incentive Plan for Fiscal Year 2021, incorporated herein by reference to the Registrant's Current Report on Form 8-K filed on July 30, 2018.
10.12	Settlement Agreement amongst the Registrant, Apio, Inc., Rancho Harvest, Inc. and Pacific Harvest, Inc. and the plaintiffs named therein and Addendum to the Settlement Agreement effective as of May 5, 2017, incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 10, 2017.
10.13	Purchase Agreement dated as of April 26, 2018, by and between Apio, Inc. Michael R. Mills, San Ysidro Farms, Inc., B&D Farms, Mahoney Brothers, and RCM Farms, LLC, incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on May 2, 2018.
10.14	Letter Agreement dated May 22, 2018 among the Registrant, Nelson Obus and Wynnefield Capital, Inc. incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 25, 2018.
10.15	Capital Contribution and Partnership Interest and Stock Purchase Agreement dated December 1, 2018 by and among Apio, Inc., a Delaware Corporation, Yucatan Foods, L.P., a Delaware limited partnership ("Yucatan"), Camden Fruit Corporation, a California corporation, Landec Corporation, a Delaware corporation, in its capacity as guarantor, Ardeshir Haerizadeh, as an equityholder representative, and the equityholders of Camden and Yucatan, incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on December 6, 2018.
10.16	Landec Corporation Executive Change in Control Severance Plan.
10.17	Credit and Guaranty Agreement, dated December 31, 2020, by and among Landec Corporation, Curation Foods, Inc. and Lifecore Biomedical, Inc., as borrowers, certain other subsidiary parties thereto, as guarantors, Goldman Sachs Specialty Lending Group, L.P., as lender, administrative agent and collateral agent, and certain affiliates of Guggenheim Credit Services, LLC, as lenders, incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 5, 2021.
10.18	Credit Agreement, dated December 31, 2020, by and among Landec Corporation, Curation Foods, Inc. and Lifecore Biomedical, Inc., as borrowers, certain other subsidiary parties thereto, as guarantors, and BMO Harris Bank., N.A., a slender and administrative agent, incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 5, 2021.
10.19	Pledge and Security Agreement, dated December 31, 2020, by and among Landec Corporation, Curation Foods, Inc., Lifecore Biomedical, Inc. and certain other subsidiary parties thereto, as grantors, and Goldman Sachs Specialty Lending Group, L.P., as collateral agent, incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on January 5, 2021
10.2	Pledge and Security Agreement, dated December 31, 2020, by and among Landec Corporation, Curation Foods, Inc., Lifecore Biomedical, Inc. and certain other subsidiary parties thereto, as grantors, and BMO Harris Bank., N.A., as administrative agent, incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on January 5, 2021.
10.21	Employment Agreement, dated January 18, 2021, by and between Landec Corporation and John Morberg, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 20, 2021.
10.22	Separation and General Release by and between Landec Corporation and Brian McLaughlin, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 2, 2021.
10.23	Separation and General Release by and between Landec Corporation and Dawn Kimball, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 8, 2021

Exhibit Number	Exhibit Title
10.24	Separation and General Release by and between Landec Corporation and Timothy Burgess, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 15, 2021.
10.25	Share Purchase Agreement, dated June 1, 2021, by and among the Company, Curation Foods, Newell Capital Corporation, Newell Brothers Investment 2 Corp., and Windset Holdings 2010 Ltd., incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 2, 2021.
10.26	Amended and Restated Employment Agreement between the Registrant and Albert D. Bolles, Ph.D., effective as of July 23, 2020, incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on October 7, 2020.
21.1+	Subsidiaries of the Registrant
23.1+	Consent of Independent Registered Public Accounting Firm
24.1+	Power of Attorney – See signature page
31.1+	CEO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2+	CFO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1**	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2**	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation

* Represents a management contract or compensatory plan or arrangement

** Information is furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing

\+ Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Santa Maria, State of California, on September 13, 2022.

LANDEC CORPORATION

By: /s/ John D. Morberg

John D. Morberg
Chief Financial Officer
(Principal Financial and Accounting Officer)

POWER OF ATTORNEY

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

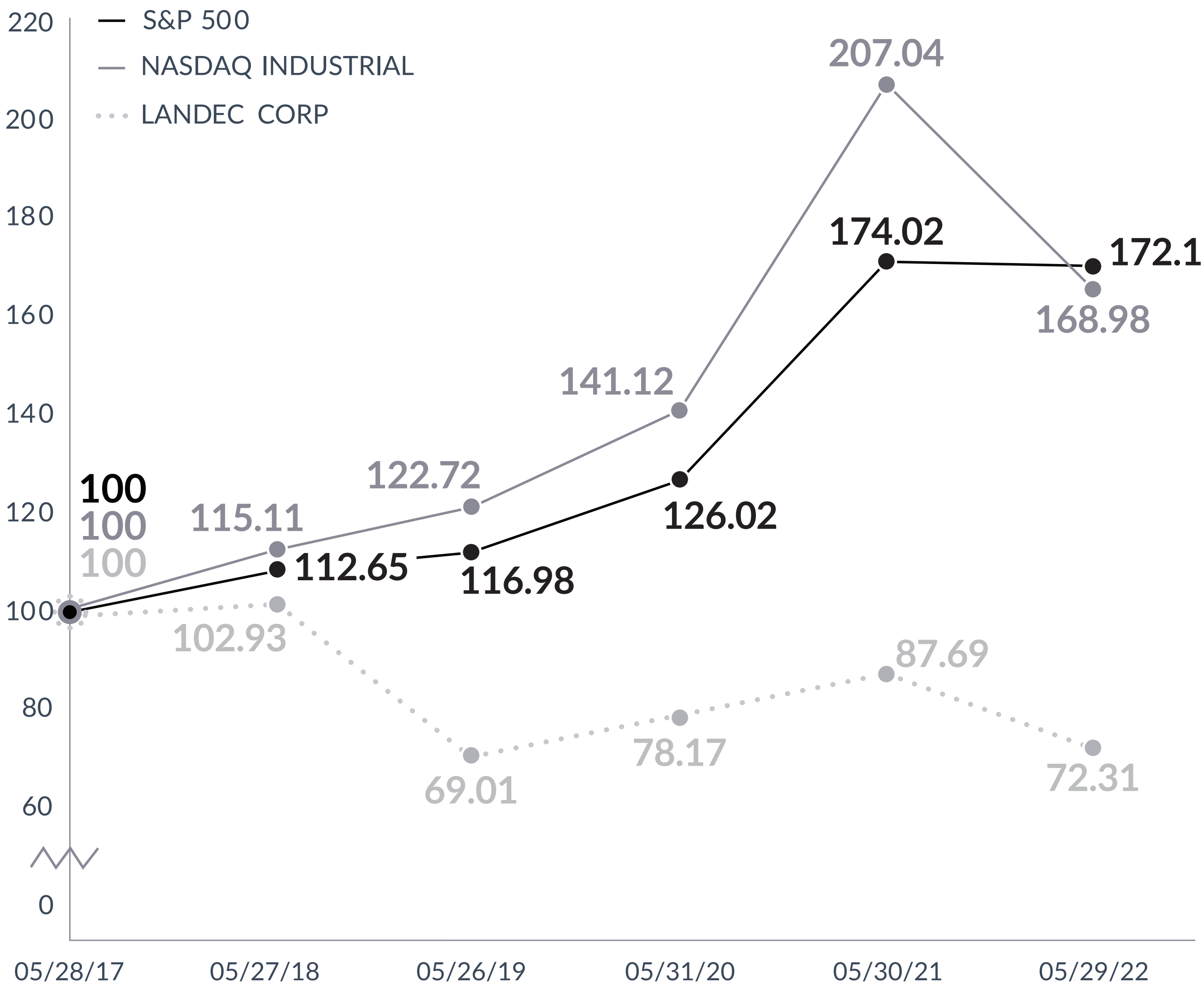
Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ James G. Hall James G. Hall	President and Chief Executive Officer (Principal Executive Officer) and Director	September 13, 2022
/s/ John D. Morberg John D. Morberg	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	September 13, 2022
/s/ Craig Barbarosh Craig Barbarosh	Director	September 13, 2022
/s/ Deborah Carosella Deborah Carosella	Director	September 13, 2022
/s/ Raymond Diradoorian Raymond Diradoorian	Director	September 13, 2022
/s/ Jeffrey Edwards Jeffrey Edwards	Director	September 13, 2022
/s/ Katrina Houde Katrina Houde	Director	September 13, 2022
/s/ Nelson Obus Nelson Obus	Director	September 13, 2022
/s/ Tonia Pankopf Tonia Pankopf	Director	September 13, 2022
/s/ Andrew K. Powell Andrew K. Powell	Director	September 13, 2022
/s/ Joshua E Schechter Joshua E. Schechter	Director	September 13, 2022
/s/ Catherine A. Sohn Catherine A. Sohn	Director	September 13, 2022

The graph below matches Landec Corporation's cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the S&P 500 index and the NASDAQ Industrial index. The graph tracks the performance of a $100 investment in our common stock and in each index (with the reinvestment of all dividends) from 05/28/17-05/29/22.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Landec Corporation, the S&P 500 Index and the NASDAQ Industrial Index



	05/28/17	05/27/18	05/26/19	05/31/20	05/30/21	05/29/22
Landec Corporation	100.00	102.93	69.01	78.17	87.69	72.31
S&P 500	100.00	112.65	116.98	126.02	174.02	172.13
NASDAQ Industrial	100.00	115.11	122.72	141.12	207.04	168.98

* $100 invested on 5/28/17 in stock and index, including reinvestment of dividends. Indexes calculated on month-end basis.

BOARD OF DIRECTORS

Craig Barbarosh

Chairperson of the Board
Attorney, Katten Muchin Rosenman, LLP

James G. Hall

Chief Executive Officer
President, Lifecore Biomedical

Deborah Carosella

Retired Chief Executive Officer,
Madhava Natural Sweeteners

Raymond H. Diradoorian

Retired Executive Vice President of Global Technical Operations,
Allergan, Inc.

Jeffrey L. Edwards

Retired Executive Vice President,
Finance & Business Development,
Chief Financial Officer,
Allergan, Inc.

Katrina L. Houde

Retired Chief Executive Officer,
SunOpta, Inc.

Nelson Obus

Managing Member,
Wynnefield Capital Management, LLC

Tonia Pankopf

Managing Partner,
Pareto Advisors, LLC

Andrew Powell

Retired Executive Vice President
and Counsel, Medivation, Inc.

Joshua E. Schechter

Board Director,
Bed, Bath & Beyond, Inc., Viad Corp.
Chairman of the Board of Directors of
Support.com, Inc.

Catherine A. Sohn, Pharma.D.

Retired Senior Vice President,
GlaxoSmithKline, plc

EXECUTIVE OFFICERS

James G. Hall

Chief Executive Officer
President, Lifecore Biomedical

John D. Morberg

Chief Financial Officer & Secretary

LANDEC CORPORATE HEADQUARTERS

2811 Airpark Blvd.
Santa Maria, California 93455

(650) 306-1650

LIFECORE BIOMEDICAL CORPORATE HEADQUARTERS

3515 Lyman Blvd.
Chaska, Minnesota 55318

(952) 368-4300

NUMERICAL REPORTING

FY22 results, amounts and percentages noted in the 2022 Annual Report are subject to rounding.

STOCK LISTING

The Company's common stock is traded on the Nasdaq Global Select Market under the symbol LNDC. The Company has filed an annual report on Form 10-K with the Securities and Exchange Commission. Stockholders may obtain a copy of this report and Form 10-K without charge by writing the Company at our corporate address, listed above.

STOCKHOLDER'S INFORMATION

Transfer Agent and Registrar

The stock transfer agent and registrar for Landec Corporation is Broadridge. Stockholders who wish to transfer their stock, or change the name in which the shared are registered, should contact:

Broadridge Corporate Issuer Solutions, Inc.
PO Box 1342
Brentwood, NY 11717

(800) 733-1121

FORWARD-LOOKING STATEMENTS

Except for historical information contained here, in the matters discussed in the enclosed materials are forward-looking statement that involve certain risks and uncertainties that could cause actual results to differ materially including risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

LEGAL

Independent Registered Public Accounting Firm

Ernst & Young LLP
San Francisco, CA

Corporate Counsel

Latham and Watkins LLP
Los Angeles, CA

TRADEMARKS

The following are some of the official trademarks of Landec Corporation:

Landec®
Lifecore®Biomedical
Yucatan®
Cabo Fresh®
Corgel® BioHydrogel
O Olive Oil & Vinegar®

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