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

FORM 10-Q

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

For the Fiscal Quarter Ended February 26, 2023, or

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

For the Transition period for _________ to _________.

Commission file number: **000-27446**

LIFECORE BIOMEDICAL, INC.

(Exact name of registrant as specified in its charter)

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

3515 Lyman Boulevard	
Chaska, Minnesota	**55318**
(Address of principal executive offices)	(Zip Code)

(952) 368-4300
(Registrant's telephone number, including area code)

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	LFCR	The NASDAQ Global Select Market

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 (§232.405 of this chapter) 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 the definitions 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	☒	Emerging Growth Company	☐
Non Accelerated Filer	☐	Smaller Reporting 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 26, 2023, there were 30,322,169 shares of common stock outstanding.

LIFECORE BIOMEDICAL, INC.
FORM 10-Q
For the Fiscal Quarter Ended February 26, 2023

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LIFECORE BIOMEDICAL, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	February 26, 2023	May 29, 2022
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,950	$ 991
Accounts receivable, less allowance for credit losses	32,371	40,094
Inventories	48,696	44,300
Prepaid expenses and other current assets	4,422	5,183
Current assets, discontinued operations	—	33,144
Total Current Assets	88,439	123,712
Property and equipment, net	120,799	115,031
Operating lease right-of-use assets	5,924	6,519
Goodwill	13,881	13,881
Trademarks/tradenames, net	4,400	4,700
Other non-current assets	2,710	2,900
Non-current assets, discontinued operations	—	11,063
Total Assets	$ 236,153	$ 277,806
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 14,762	$ 12,988
Accrued compensation	6,733	8,941
Other accrued liabilities	12,012	6,847
Current portion of lease liabilities	1,455	4,592
Deferred revenue	2,711	919
Line of credit	—	40,000
Current portion of long-term debt, net	—	98,178
Current liabilities, discontinued operations	—	4,345
Total Current Liabilities	37,673	176,810
Line of credit	16,000	—
Long-term debt, net	98,964	—
Long-term lease liabilities	10,516	8,356
Deferred taxes, net	80	126
Other non-current liabilities	203	190
Non-current liabilities, discontinued operations	—	1,627
Total Liabilities	163,436	187,109
Convertible Preferred Stock, 0.001 par value; 2,000 shares authorized; 39 shares issued and outstanding at February 26, 2023 (none at May 29, 2022), respectively	38,510	—
Stockholders' Equity:		
Common Stock, $0.001 par value; 50,000 shares authorized; 30,319 and 29,513 shares issued and outstanding at February 26, 2023 and May 29, 2022, respectively	30	30
Additional paid-in capital	174,268	167,352
Accumulated deficit	(140,091)	(76,099)
Accumulated other comprehensive loss	—	(586)
Total Stockholders' Equity	34,207	90,697
Total Liabilities, Convertible Preferred Stock and Stockholders' Equity	236,153	277,806

See accompanying notes to the consolidated financial statements.

LIFECORE BIOMEDICAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	February 26, 2023	February 27, 2022	February 26, 2023	February 27, 2022
Product sales	$ 27,600	$ 37,399	$ 77,748	$ 90,140
Cost of product sales	21,622	24,533	58,178	58,507
Gross profit	5,978	12,866	19,570	31,633
Operating costs and expenses:				
Research and development	1,964	2,000	6,128	5,722
Selling, general and administrative	10,972	14,163	31,201	27,659
Impairment of indefinite-lived intangible assets	—	—	300	—
Gain on sale of BreatheWay	—	—	(2,108)	—
Restructuring costs	2,741	5,270	4,611	7,530
Total operating costs and expenses	15,677	21,433	40,132	40,911
Operating loss	(9,699)	(8,567)	(20,562)	(9,278)
Interest income	22	20	53	66
Interest expense	(5,818)	(4,105)	(13,715)	(13,877)
Transition services income	70	5,473	70	5,473
Other income (expense), net	34	454	(481)	642
Net loss before tax	(15,391)	(6,725)	(34,635)	(16,974)
Income tax (expense) benefit	(70)	87	(78)	5,591
Net loss from continuing operations	(15,461)	(6,638)	(34,713)	(11,383)
Discontinued operations:				
Loss from discontinued operations	$ (24,731)	$ (6,859)	$ (29,279)	$ (49,576)
Income tax (expense) benefit	—	411	—	(157)
Loss from discontinued operations, net of tax	(24,731)	(6,448)	(29,279)	(49,733)
Net loss	$ (40,192)	$ (13,086)	$ (63,992)	$ (61,116)
Basic net loss per share:				
Loss from continuing operations	$ (0.51)	$ (0.23)	$ (1.16)	$ (0.39)
Loss from discontinued operations	(0.82)	(0.22)	(0.98)	(1.68)
Total basic net loss per share	$ (1.33)	$ (0.45)	$ (2.14)	$ (2.07)
Diluted net loss per share:				
Loss from continuing operations	$ (0.51)	$ (0.23)	$ (1.16)	$ (0.39)
Loss from discontinued operations	(0.82)	(0.22)	(0.98)	(1.68)
Total diluted net loss per share	$ (1.33)	$ (0.45)	$ (2.14)	$ (2.07)
Shares used in per share computation:				
Basic	30,304	29,482	29,838	29,459
Diluted	30,304	29,482	29,838	29,459
Other comprehensive income, net of tax:				
Net unrealized gain on interest rate swaps (net of tax effect of $0, $(100), $(16) and $(190))	$ —	$ 104	$ 586	$ 646
Other comprehensive income, net of tax	—	104	586	646
Total comprehensive loss	$ (40,192)	$ (12,982)	$ (63,406)	$ (60,470)

See accompanying notes to the consolidated financial statements.

LIFECORE BIOMEDICAL, INC.
CONSOLIDATED STATEMENT OF CHANGES IN CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY
(Unaudited) (In thousands)

Three and Nine Months Ended February 26, 2023

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at May 29, 2022	—	$ —	29,513	$ 30	$ 167,352	$ (76,099)	$ (586)	$ 90,697
Issuance of stock under stock plans, net of shares withheld	—	—	80	—	—	—	—	—
Taxes paid by Company for employee stock plans	—	—	—	—	(67)	—	—	(67)
Stock-based compensation	—	—	—	—	785	—	—	785
Net loss	—	—	—	—	—	(11,351)	—	(11,351)
Other comprehensive income, net of tax	—	—	—	—	—	—	300	300
Balance at August 28, 2022	—	$ —	29,593	$ 30	$ 168,070	$ (87,450)	$ (286)	$ 80,364
Issuance of stock under stock plans, net of shares withheld	—	—	76					—
Taxes paid by Company for employee stock plans	—	—	—	—	(142)	—		(142)
Stock-based compensation	—	—	—	—	1,108	—		1,108
Net loss	—	—	—	—	—	(12,449)		(12,449)
Other comprehensive income, net of tax	—	—	—	—	—	—	286	286
Issuance of shares to Wynnefield Capital, Inc.	—	—	628	—	5,000	—	—	5,000
Balance at November 27, 2022	—	$ —	30,297	$ 30	$ 174,036	$ (99,899)	$ —	$ 74,167
Issuance of stock under stock plans, net of shares withheld			22	—	—	—	—	—
Proceeds of Convertible Preferred Stock, net of issuance costs	39	38,082	—	—	—	—	—	—
Convertible Preferred Stock PIK dividend	—	428	—	—	(428)	—	—	(428)
Cost of issuance of shares to Wynnefield Capital, Inc.	—	—	—	—	(178)	—	—	(178)
Taxes paid by Company for employee stock plans	—	—	—	—	(65)	—	—	(65)
Stock-based compensation	—	—	—	—	903	—	—	903
Net loss	—	—	—	—	—	(40,192)	—	(40,192)
Balance at February 26, 2023	39	$ 38,510	30,319	$ 30	$ 174,268	$ (140,091)	$ —	$ 34,207

Three and Nine Months Ended February 27, 2022

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
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	—	—	129	—	—	—	—	—
Taxes paid by Company for employee stock plans	—	—	—	—	(428)	—	—	(428)
Stock-based compensation	—	—	—	—	620	—	—	620
Net loss	—	—	—	—	—	(9,509)	—	(9,509)
Other comprehensive income, net of tax	—	—	—	—	—	—	366	366
Balance at August 29, 2021	—	$ —	29,462	$ 29	$ 165,725	$ 29,071	$ (992)	$ 193,833
Issuance of stock under stock plans, net of shares withheld	—	—	19	—	—	—	—	—
Taxes paid by Company for employee stock plans	—	—	—	—	(84)	—	—	(84)
Stock-based compensation	—	—	—	—	686	—	—	686
Net loss	—	—	—	—	—	(38,521)	—	(38,521)
Other comprehensive income, net of tax	—	—	—	—	—	—	176	176
Balance at November 28, 2021	—	$ —	29,481	$ 29	$ 166,327	$ (9,450)	$ (816)	$ 156,090
Issuance of stock under stock plans, net of shares withheld	—	—	1	—	—	—	—	—
Taxes paid by Company for employee stock plans	—	—	—	—	(6)	—	—	(6)
Stock-based compensation	—	—	—	—	622	—	—	622
Net loss	—	—	—	—	—	(13,086)	—	(13,086)
Other comprehensive income, net of tax	—	—	—	—	—	—	104	104
Balance at February 27, 2022	—	$ —	29,482	$ 29	$ 166,943	$ (22,536)	$ (712)	$ 143,724

See accompanying notes to the consolidated financial statements.

LIFECORE BIOMEDICAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Nine Months Ended	
	February 26, 2023	February 27, 2022
Cash flows from operating activities:		
Net loss	$ (63,992)	$ (61,116)
Adjustments to reconcile net loss to net cash used in operating activities:		
Impairment of indefinite-lived intangible assets and goodwill	300	32,057
Depreciation, amortization of intangibles, debt costs and right-of-use assets	10,392	14,488
Gain on sale of BreatheWay	(2,108)	—
Stock-based compensation expense	2,796	1,928
Deferred taxes	57	(5,471)
Loss on disposal of property and equipment related to restructuring, net	—	5,185
Loss on sale of Yucatan	21,039	—
Loss on sale of Eat Smart	—	235
Other, net	101	(540)
Changes in current assets and current liabilities:		
Accounts receivable, net	8,994	(7,525)
Inventories	(13,451)	(11,910)
Prepaid expenses and other current assets	(1,169)	(1,448)
Accounts payable	11,405	13,507
Accrued compensation	(1,895)	(2,027)
Other accrued liabilities	8,570	(70)
Deferred revenue	1,792	662
Net cash used in operating activities	(17,169)	(22,045)
Cash flows from investing activities:		
Purchases of property and equipment	(12,319)	(18,539)
Proceeds from the sale of BreatheWay, net	3,135	—
Proceeds from the sale of Yucatan, net	12,531	—
Proceeds from the sale of Eat Smart, net	—	73,500
Eat Smart sale net working capital adjustments	—	(2,390)
Sale of Investment in non-public company	—	45,100
Proceeds from sales of property and equipment	—	1,096
Net cash provided by investing activities	3,347	98,767
Cash flows from financing activities:		
Proceeds from sale of common stock, net of issuance costs	4,822	—
Proceeds from long-term debt	3,367	—
Payments on long-term debt	(3,199)	(86,376)
Proceeds from lines of credit	18,400	45,011
Payments on lines of credit	(42,400)	(34,111)
Taxes paid for employee stock plans	(274)	(518)
Payments for debt issuance costs	(3,669)	(169)
Proceeds from sale of preferred stock, net of issuance costs	38,082	—
Net cash provided by (used in) financing activities	15,129	(76,163)
Net increase in cash and cash equivalents	1,307	559
Cash and cash equivalents, beginning of period	1,643	1,295
Cash and cash equivalents, end of period	$ 2,950	$ 1,854
Supplemental disclosure of non-cash investing and financing activities:		
Purchases of property and equipment on trade vendor credit	$ 3,918	$ 1,764
Convertible Preferred Stock PIK dividend	$ (428)	$ —

See accompanying notes to the consolidated financial statements.

LIFECORE BIOMEDICAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Organization

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

Lifecore Biomedical's biomedical company, Lifecore Biomedical Operating Company, 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.

Lifecore Biomedical previously operated a natural food company, through its wholly owned subsidiary, Curation Foods, Inc. ("Curation Foods"), which was previously focused on the distribution of plant-based foods to retail, club and foodservice channels throughout North America, which was presented in Lifecore Biomedical's prior financial statements as the Curation Foods segment. However, upon the sale of Yucatan Foods on February 7, 2023 (see "Yucatan Disposition and Discontinued Operations" below) and O Olive Oil & Vinegar ("O Olive") on April 6, 2023, (refer to Note 10), the Company has ceased to operate the Curation Foods business. Accordingly, commencing in the fourth quarter of fiscal year 2023, the Curation Foods segment of Lifecore Biomedical will be presented as a discontinued operation in its entirety.

On November 14, 2022, the Company filed an amendment to the Certificate of Incorporation to change the Company's name from Landec Corporation to Lifecore Biomedical, Inc. (the "Name Change"), which was approved by the board of directors of the Company and became effective on November 14, 2022. In connection with the Name Change, the Company's common stock began trading under its new NASDAQ ticker symbol, "LFCR", on November 15, 2022. References to "Landec" or "Landec Corporation" refer to operations and/or transactions of the Company prior to the Name Change.

Yucatan Disposition and Discontinued Operations

On February 7, 2023 (the "Closing Date"), Company, Camden Fruit Corp., a direct wholly owned subsidiary of Curation Foods and an indirect wholly owned subsidiary of the Company ("Camden" and together with the Curation Foods and the Company, the "Sellers"), Yucatan Foods, LLC, a wholly owned subsidiary of the Camden ("Yucatan"), and Yucatan Acquisition Holdings LLC, a wholly owned subsidiary of Flagship Food Group LLC ("Buyer" and together with Yucatan and the Sellers, the "Parties") completed the sale (the "Yucatan Disposition") of the Company's avocado products business, including its Yucatan® and Cabo Fresh® brands, as well as the associated manufacturing facility and operations in Guanajuato, Mexico (the "Business"), pursuant to the terms of a securities purchase agreement executed by the Parties on February 7, 2023 (the "Securities Purchase Agreement"). Pursuant to the Securities Purchase Agreement, Buyer acquired all of the outstanding equity securities of Yucatan for a purchase price of $17.5 million in cash, subject to certain post-closing adjustments at closing, including selling costs, net working capital and other adjustments amounting to $5.0 million. The Company recognized a loss on the Yucatan Disposition of $21.0 million in the third quarter ended February 26, 2023. The loss on the Yucatan Disposition is recorded in loss from discontinued operations in the Consolidated Statement of Comprehensive (Loss) Income.

The accounting requirements for reporting the Yucatan Foods business as discontinued operations were met when the Yucatan Disposition was completed on the Closing Date. Accordingly, the consolidated financial statements and notes to the consolidated financial statements reflect the results of the Yucatan business as a discontinued operation for the periods presented. Refer to Note 9 - Discontinued Operations for additional information.

Securities Purchase Agreement

On November 25, 2022, the Company entered into a Securities Purchase Agreement (the “Wynnefield Purchase Agreement”) with entities affiliated with Wynnefield Capital, Inc. (the “Purchasers”). Pursuant to the Wynnefield Purchase Agreement, the Company agreed to sell an aggregate of 627,746 shares of its common stock (the “Shares”) for aggregate gross proceeds of approximately $5.0 million (the “Offering”). The purchase price for each Share was $7.97. The Offering closed on November 25, 2022. Pursuant to the Wynnefield Purchase Agreement, the Company granted the Purchasers certain piggyback registration rights and agreed, among other things, to indemnify such parties under any registration statement filed that includes the Shares from certain losses, claims, damages and liabilities.

Series A Convertible Preferred Share Purchase Agreement

On January 9, 2023, the Company simultaneously signed and closed a Securities Purchase Agreement (the “Preferred Share Purchase Agreement”) with a group of certain accredited investors. Refer to Note 2 – Convertible Preferred Stock for additional information.

Amendment to Credit Agreements

On January 9, 2023, the Company entered into certain amendments to its existing Credit Facilities (defined below). Refer to Note 6 – Debt and Note 10 – Subsequent Events for additional information.

Basis of Presentation

The accompanying unaudited consolidated financial statements of Lifecore Biomedical have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made which are necessary to present fairly the financial position of the Company at February 26, 2023, and the results of operations and cash flows for all periods presented. Although Lifecore Biomedical believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with GAAP have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). The accompanying financial data should be reviewed in conjunction with the audited financial statements and accompanying notes included in Lifecore Biomedical’s Annual Report on Form 10-K/A for the fiscal year ended May 29, 2022 (the “Annual Report”).

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.

The results of operations for the three and nine months ended February 26, 2023 are not necessarily indicative of the results that may be expected for an entire fiscal year because there is some seasonality in the order patterns of Lifecore’s customers which may lead to significant fluctuations in Lifecore Biomedical’s quarterly results of operations.

Basis of Consolidation

The consolidated financial statements are presented on the accrual basis of accounting in accordance with GAAP and include the accounts of Lifecore Biomedical and its subsidiaries, Lifecore and Curation Foods. All material inter-company transactions and balances have been eliminated.

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.

Going Concern Update

As disclosed in the Company's previous filings, the Company had previously determined that there were factors, which was principally the result of our noncompliance with financial covenants, that raised substantial doubt about its ability to continue as a going concern. Since that time, the Company has taken measures to strengthen its financial position, including the repayment and termination of the Prior Term Loan Facility, and the entry into the Refinancing Transactions (defined below), in each case, on May 22, 2023. The Refinancing Transactions provided the Company with additional liquidity, eliminated the Company's noncompliance with its financial covenants under Credit Facilities (including granting the Company applicable waivers under the Revolving Term Loan Facility), reduced the Company's near-term debt service costs, and eliminated certain financial covenants that existed under the Prior Term Loan Facility. In addition, the completion of the Company's sale of the Yucatan and O Olive business, and the entry into an amended and restated supply agreement with Alcon Research, LLC ("Alcon") to extend and expand its prior supply agreement, as further described in Note 10 – Subsequent Events, also provided the Company with additional liquidity. The cash provided under the Refinancing Transactions, completed divestitures of remaining Curation Foods businesses, and the lower debt service costs under our Refinancing Transactions provide improved forecasted cash flow from operations that allow sufficient liquidity over the next 12 months to meet our obligations as they come due.

Based on the foregoing, management believes that our cash position as of the date of filing these financial statement (the "Filing Date") and forecasted cash flow from operations is sufficient to meet capital and liquidity requirements for at least the next 12 months. As a result, there is no longer substantial doubt about the Company's ability to continue as a going concern.

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 as presented on the Statements of Cash Flows

The following table provides a reconciliation of cash and cash equivalents and cash and cash equivalents, discontinued operations 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)	February 26, 2023	May 29, 2022	February 27, 2022	May 30, 2
Cash and cash equivalents	$ 2,950	$ 991	$ 1,854	$
Cash and cash equivalents, discontinued operations	—	652	—	
Cash and cash equivalents	$ 2,950	$ 1,643	$ 1,854	$

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value and consist of the following:

(In thousands)	February 26, 2023	May 29, 2022
Finished goods	$ 14,636	$ 13,4
Raw materials	22,554	21,3
Work in progress	11,506	9,5
Total	$ 48,696	$ 44,3

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.

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 forecasts 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 pools 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 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
Nine months ended February 26, 2023	$ 5	$ —	$ (1)	$ 4
Nine months ended February 27, 2022	$ 5	$ —	$ —	$ 5

Debt Issuance Costs

The Company records its line of credit debt issuance costs as an asset, and as such, $0.7 million and $1.3 million were recorded as Prepaid expenses and other current assets, and Other non-current assets in the accompanying Consolidated Balance Sheets, respectively, as of February 26, 2023, and $0.7 million and $1.9 million, respectively, as of May 29, 2022. The Company records its term debt issuance costs as a contra-liability, and as such, $8.1 million and $5.5 million were recorded as a reduction to long-term debt, net and current portion of long-term debt, net in the accompanying Consolidated Balance Sheets, respectively, as of February 26, 2023 and May 29, 2022.

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 Statements of Comprehensive (Loss) Income 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 Comprehensive (Loss) Income. 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 (loss) consists of two components, net loss and other comprehensive income (loss) (“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 29, 2022	$ (586)
Amounts reclassified from OCI	586
Other comprehensive income, net	$ 586
Balance as of February 26, 2023	$ —

Assets Held for Sale

In May 2021, the Board of Directors approved a plan to sell Curation Foods’ Rock Hill, South Carolina distribution facility. There was no impairment recorded in fiscal year 2021. The asset was sold on June 9, 2021 for gross proceeds of $1.1 million. A gain of $0.6 million was recorded upon the sale and was included in loss from discontinued operations within the Consolidated Statements of Comprehensive (Loss) Income.

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. These assets were sold during the first quarter of fiscal year 2023 for net proceeds of $3.1 million. A gain of $2.1 million was recorded upon the sale, which is included in Selling, general and administrative within the Consolidated Statements of Comprehensive (Loss) Income for the nine months ended February 26, 2023.

Leases

Under Topic 842, the Company determines if an arrangement is a lease at inception. Right-of-use (“ROU”) assets and liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. As most of the leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is a quoted rate based on the understanding of what the Company’s credit rating would be. Certain agreements may contain the option to extend the lease term, terminate the lease before the contractual expiration date, or purchase the leased asset. The Company, when reasonably certain to exercise the option, considers these options in determining the measurement of the lease. The Company’s lease agreements do not contain any material residual value guarantees.

The Company’s lease agreements generally contain lease and non-lease components. Non-lease components primarily include payments for maintenance and utilities. The Company combines fixed payments for non-lease components with lease payments and accounts for them together as a single lease component which increases the amount of lease assets and liabilities.

Payments under lease arrangements are primarily fixed; however, certain lease agreements contain variable payments, which are expensed as incurred and are not included in the operating lease assets and liabilities. These amounts primarily include payments affected by changes in price indices.

Long-lived and Indefinite-Lived Intangible Assets

The Company's intangible assets are comprised of customer relationships with a finite estimated useful life of 12 years, and trademarks/tradenames and goodwill with indefinite useful lives.

During the nine months ended February 26, 2023, the Company recorded an impairment charge of $1.0 million related to Yucatan Foods indefinite-lived intangible asset related to trademarks/tradenames which is included in discontinued operations. In addition, during the nine months ended February 26, 2023, the Company recorded an impairment charge of $0.3 million related to O Olive's indefinite-lived intangible asset for their trademarks/tradenames. The impairments were determined using the royalty savings method to estimate the fair value of its trademarks and was primarily a result of an indication of a decrease in the fair market value of the Yucatan Foods and O Olive businesses driven by lower market valuations and a decrease in projected cash flows. The O Olive impairment charge is included in the line item "Impairment of indefinite-lived intangible assets" on the Consolidated Statements of Comprehensive (Loss) Income, and is reported in the Curation Foods business segment (See Note 7).

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.

The accounting guidance established 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 February 26, 2023 and May 29, 2022, the Company held certain assets and liabilities that are required or it elected to be measured at fair value on a recurring basis, including its interest rate swap contracts.

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 Sheet meeting the criteria of 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.

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 nonrecurring basis (in thousands):

	Fair Value at February 26, 2023			Fair Value at May 29, 2022		
Assets:	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets held for sale - nonrecurring	$ —	$ —	$ —	$ —	$ —	$ 1,027
Current assets, discontinued operation						
Property & equipment	—	—	—	—	3,500	—
Customer relationship	—	—	—	—	—	1,400
Tradenames	—	—	—	—	—	4,000
Total assets	—	—	—	—	3,500	6,427

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 and Yucatan 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)	Three Months Ended		Nine Months Ended	
Lifecore:	February 26, 2023	February 27, 2022	February 26, 2023	February 27, 2022
Contact development and manufacturing organization	$ 17,809	$ 24,799	$ 52,088	$ 63,951
Fermentation	8,521	10,009	19,635	17,756
Total	$ 26,330	$ 34,808	$ 71,723	$ 81,707

(In thousands)	Three Months Ended		Nine Months Ended	
Curation Foods:	February 26, 2023	February 27, 2022	February 26, 2023	February 27, 2022
Olive Oil and vinegars	$ 1,270	$ 2,169	$ 6,025	$ 7,016
Technology	—	422	—	1,417
Total	$ 1,270	$ 2,591	$ 6,025	$ 8,433

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 February 26, 2023 and May 29, 2022, were $4.7 million and $10.2 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 February 26, 2023 and May 29, 2022, were $2.7 million and $0.9 million, respectively. Revenue recognized during the three and nine months ended February 26, 2023, that was included in the contract liability balance at the beginning of fiscal year 2023, was $0.1 million and $0.5 million, respectively.

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.

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.

Compliance Matters and Related Litigation

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 for the three and nine months ended February 26, 2023.

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.

Accounting Pronouncements

On January 9, 2023, upon the issuance of the Series A Convertible Preferred Stock (as defined in Note 2– Convertible Preferred Stock), the Company adopted ASU No. 2020-06, “Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity’s Own Equity (Subtopic 815-40)”. This ASU simplified the accounting for certain financial instruments with characteristics of liabilities and equity. The FASB reduced the number of accounting models for convertible debt and convertible preferred stock instruments and made certain disclosure amendments to improve the information provided to users.

2. Convertible Preferred Stock

On January 9, 2023, the Company issued an aggregate of 38,750 shares of the Series A Convertible Preferred Stock, par value $0.001 per share (the “Convertible Preferred Stock”), all of which are convertible into shares of common stock at the election of the holders of the Convertible Preferred Stock, subject to the exchange and beneficial ownership limitations described below. The Convertible Preferred Stock ranks senior to the Company’s common stock with respect to dividends, distributions and payments on liquidation, winding-up and dissolution. Upon issuance, the shares of the Convertible Preferred Stock are fully paid and non-assessable, which means that its holders have paid their purchase price in full and are not required to pay additional funds.

Dividends

The holders of Convertible Preferred Stock are entitled to dividends on the Liquidation Preference (as defined below) at the rate of 7.5% per annum, payable in-kind (“PIK”). The Company may, at its option, pay such dividends in cash from and after the earlier of June 29, 2026, or the termination or waiver of the restriction on cash dividends and/or redemptions that is set forth in the Credit Facilities (such earlier date, the “Applicable Date”). The holders are also entitled to participate in dividends declared or paid on the common stock on an as-converted basis.

Liquidation and Redemption

Upon a liquidation, dissolution, winding up or change of control of the Company, each share of Convertible Preferred Stock will be entitled to receive an amount per share of Convertible Preferred Stock equal to the greater of (i) the purchase price paid by the purchaser at issuance, plus all accrued and unpaid dividends (the “Liquidation Preference”) and (ii) the amount that the holder of Convertible Preferred Stock (each, a “Holder” and collectively, the “Holders”) would have been entitled to receive at such time if the Convertible Preferred Stock had been converted into common stock immediately prior to such liquidation event. Upon certain bankruptcy events, the Company is required to pay to each Holder an amount in cash equal to the Liquidation Preference being redeemed. From and after the Applicable Date, each Holder shall have the right to require the Company to redeem all or any part of such Holder’s Convertible Preferred Stock for an amount equal to the Liquidation Preference. At the time of a redemption, if the Company does not have sufficient funds to redeem any preferred shares submitted for redemption, each holder is entitled to receive interest on the unpaid portion of the redemption at 1% per month until fully paid (the “1% contingent interest”). As of February 26, 2023, the aggregate liquidation preference of the Convertible Preferred Stock approximated $39.2 million.

Conversion

Each Holder has the right, at its option, to convert its Convertible Preferred Stock, in whole or in part, into fully paid and non-assessable shares of common stock at an initial conversion price equal to $7.00 per share. The conversion price is subject to customary anti-dilution adjustments, including in the event of any stock split, stock dividend, recapitalization or similar events, and is also subject to adjustment in the event of subsequent offerings of common stock or convertible securities by the Company for less than the conversion price. Pursuant to the terms of the Certificate of Designations of the Convertible Preferred Stock filed by the Company with the Delaware Secretary of State on January 9, 2023, unless and until approval of the Company’s stockholders is obtained as contemplated by NASDAQ listing rules, no Holder may convert shares of Convertible Preferred Stock through either an optional or a mandatory conversion into shares of common stock if and solely to the extent that the issuance of such shares of common stock would exceed the aggregate number of shares of common stock that is equal to 19.99% of the amount of common stock of the Company outstanding on the date on which we issued the Convertible Preferred Stock (the “Exchange Limit”). Additionally, subject to certain exceptions and waiver by each Holder, the Company will not issue any shares of common stock to any respective Holder to the extent that such issuance of common stock would result in such Holder beneficially owning in excess of 9.99% of the then-outstanding common stock (together with the Exchange Limit, the “Conversion Limits”). Subject to certain conditions, the Company may from time to time, at its option, require conversion of all or any portion of the outstanding shares of Convertible Preferred Stock to common stock if, for at least 20 consecutive trading days during the respective measuring period the closing price of the common stock was at least 150% of the conversion price (the “Mandatory Conversion Right”). The Company may not exercise this Mandatory Conversion Right unless certain conditions with regard to the shares of common stock to be issued upon such conversion are satisfied.

Voting

Each Holder is entitled to vote with the holders of the shares of common stock on all matters submitted for a vote of holders of shares of common stock (voting together with the holders of shares of common stock as one class). Each Holder is entitled the whole number of votes equal to the number of shares of common stock into which such Holder’s shares of Convertible Preferred Stock would be convertible on the record date for the vote or consent (subject to the Conversion Limits).

Registration Rights Agreement

On January 9, 2023, in connection with the issuance of the Convertible Preferred Stock, the Company and the Holders also entered into a Registration Rights Agreement (the “Registration Rights Agreement”) pursuant to which, among other things, the Company granted the Holders certain registration rights with respect to the shares of common stock issuable upon conversion of the Convertible Preferred Stock. The Registration Rights Agreement contains monetary penalties if the registration statement is not declared effective by the SEC within 90 days of the issuance of the Convertible Preferred Stock on January 9, 2023, or if earlier, the fifth business day after the SEC notifies the Company that the registration statement is not subject to further review. The Registration Rights Agreement also contains monetary penalties if the Company fails to maintain the effectiveness of the registration statement once deemed effective by the SEC. As of the date of this Quarterly Report on Form 10-Q, the Company has incurred approximately $0.8 million in monetary penalties under the Registration Rights Agreement.

Classification

The Convertible Preferred Stock is redeemable contingent upon the occurrence of an event that is not probable. Accordingly, the Company has presented the Convertible Preferred Stock outside of permanent equity. The Convertible Preferred Stock was recorded at its issuance date fair value of the net proceeds raised and will not require subsequent measurement until it becomes probable of being redeemable.

The Company recorded proceeds of $38.8 million, net of costs associated with the issuance of the Convertible Preferred Stock of approximately $0.7 million approximating $38.1 million. As of February 26, 2023, the Company recorded PIK dividends of approximately $0.4 million as a reduction to Additional Paid in Capital and an increase to the Convertible Preferred Stock balance to $38.5 million. As of February 26, 2023, there were approximately 39,200 shares of Convertible Preferred Stock outstanding.

3. Stock-based Compensation and Stockholders' Equity

Stock-Based Compensation Activity

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. Restricted stock units ("RSUs") are valued at the closing market price of the Company's common stock on the grant date. The Company uses the straight-line method to recognize the fair value of stock-based compensation arrangements.

During the three months ended February 26, 2023, the Company granted no options to purchase shares of common stock and awarded 77,098 RSUs. During the nine months ended February 26, 2023, the Company granted 743,050 options to purchase shares of common stock and awarded 336,186 RSUs.

As of February 26, 2023, the Company has reserved 3.4 million shares of common stock for future issuance under its current and former equity plans.

Stock-Based Compensation Expense

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 following table summarizes stock-based compensation by income statement line item:

	Three Months Ended		Nine months ended	
(In thousands)	February 26, 2023	February 27, 2022	February 26, 2023	February 27, 2022
Continuing operations:				
Cost of product sales	$ 109	$ 75	307	$ 177
Research and development	31	51	173	151
Selling, general and administrative	763	488	2,316	1,575
Discontinued Operations:				
Cost of product sales	—	8	—	25
Total stock-based compensation	$ 903	$ 622	$ 2,796	$ 1,928

As of February 26, 2023, there was $5.0 million of total unrecognized compensation expense related to unvested equity compensation awards granted under the Lifecore incentive stock plans. Total expense is expected to be recognized over the weighted-average period of 2.14 for stock options and 1.95 years for RSUs.

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 still repurchase up to $3.8 million of the Company's common stock under the Company's stock repurchase plan. 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 Lifecore Biomedical 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 the nine months ended February 26, 2023 and February 27, 2022, the Company did not purchase any shares on the open market or in privately negotiated transactions.

4. Diluted Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
(In thousands, except per share amounts)	February 26, 2023	February 27, 2022	February 26, 2023	February 27, 2022
Numerator:				
Net loss	$ (40,192)	$ (13,086)	$ (63,992)	$ (61,116)
Denominator:				
Weighted average shares for basic net loss per share	30,304	29,482	29,838	29,459
Effect of dilutive securities:				
Convertible preferred stock	—	—	—	—
Stock options and restricted stock units	—	—	—	—
Weighted average shares for diluted net loss per share	30,304	29,482	29,838	29,459
Basic and Diluted net loss per share	$ (1.33)	$ (0.45)	$ (2.14)	$ (2.07)

Due to the Company's net loss for the three and nine months ended February 26, 2023 and February 27, 2022, the net loss per share includes only the weighted average shares outstanding and thus excludes RSUs, stock options and Convertible Preferred Stock, as such impact would be antidilutive. See Note 2 for more information on outstanding convertible preferred stock and Note 3 for more information on outstanding RSUs and stock options.

5. Income Taxes

The provision for income taxes from continuing operations for the nine months ended February 26, 2023 and February 27, 2022, was an (expense)/benefit of $(78) thousand and $5.6 million, respectively. The effective tax rate for the nine months ended February 26, 2023 and February 27, 2022 was 0.2% and 32.0%, respectively. The effective tax rate for the nine months ended February 26, 2023, was lower than the statutory federal income tax rate of 21% primarily due to the valuation allowance recorded against certain deferred tax assets, partially offset by the federal and state research and development tax credits.

As of both February 26, 2023 and May 29, 2022, the Company had unrecognized tax benefits of $1.0 million. Included in the balance of unrecognized tax benefits as of both February 26, 2023 and May 29, 2022, is $0.9 million of tax benefits that, if recognized, would result in an adjustment to the Company's effective tax rate. The Company does not expect its unrecognized tax benefits to change significantly within the next twelve months.

The Company has elected to classify interest and penalties related to uncertain tax positions as a component of its provision for income taxes. The Company has accrued an insignificant amount of interest and penalties relating to the income tax on the unrecognized tax benefits as of February 26, 2023 and May 29, 2022.

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

6. Debt

Long-term debt, net consists of the following:

(In thousands)	February 26, 2023	May 29, 2022
Term loan	$ 107,079	$ 103,712
Total principal amount of long-term debt	107,079	103,712
Less: unamortized debt issuance costs	(8,115)	(5,534)
Total long-term debt, net of unamortized debt issuance costs	98,964	98,178
Less: current portion of long-term debt, net	—	(98,178)
Long-term debt, net	$ 98,964	$ —

On December 31, 2020, the Company refinanced its previously existing term loan and revolving credit facility by entering into (1) a credit agreement Goldman Sachs Specialty Lending Group, L.P. ("Goldman") and Guggenheim Credit Services, LLC ("Guggenheim"), as lenders, which provided the Company, Curation Foods and Lifecore, as co-borrowers, with term loan borrowings of up to $170.0 million (the "Prior Term Loan Facility"), and (ii) a credit agreement with BMO Harris Bank, N.A. ("BMO") as lender, which provided the Company, Curation Foods and Lifecore, as co-borrowers, with an up to $75.0 million revolving line of credit (the "Revolving Credit Facility" and together with Prior Term Loan Facility, the "Credit Facilities"). The Revolving Credit Facility is, and the Prior Term Loan Facility was, guaranteed, and secured by, substantially all of the Company's and the Company's direct and indirect subsidiaries' assets.

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

On January 9, 2023, the Company entered into further amendments to the Credit Facilities to, among other things, provide for the limited waiver from events of default under the Credit Facilities related to certain financial covenant requirements, as well as a waiver of certain existing terms and covenants under the Prior Term Loan, including with respect to the fixed coverage ratio leverage ratio and minimum liquidity covenants, 2% increase of annual interest rate, which was payable in kind, and a one-time amendment fee in an amount equal to 3% of the principal amount as of January 9, 2023.

This amendment also reduced the maximum commitment under the Revolving Credit Facility from $75.0 million to $60.0 million, which was further reduced to $50.0 million upon the sale of Yucatan.

The Prior Term Loan Facility would have matured on December 31, 2025. The Revolving Term Facility matures on December 31, 2025.

Interest on the Revolving Credit Facility is based upon the Company's average availability, at a per annum rate of either (i) SOFR 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% and plus (iii) for the period from December 1, 2022 until January 31, 2023, additional 2% per annum. Interest on the Prior Term Loan Facility was at a per annum rate based on either (i) the base rate plus a spread of 7.50% or (ii) the SOFR rate plus a spread of 8.50%. The Prior Term Loan Credit Facility also provided 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 Revolving Credit Facility contains, and the Prior Term Loan Facility contained, 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 January 2023 amendments to the Credit Facilities, the Company incurred debt issuance costs from the lender and third-parties of $1.1 million and $62.5 thousand, respectively, during the nine months ended February 26, 2023.

As of February 26, 2023, the Company had $16.0 million in borrowings outstanding under the Amended Revolver Credit Facility, at an effective annual interest rate of 7.2%. As of February 26, 2023, the Company had $107.0 million in borrowings outstanding under the Prior Term Loan Facility, at an effective annual interest rate of 13.2%. As the Company was able to refinance the Term Debt with New Term Debt subsequent to February 26, 2023 but prior to the filing of this Quarterly Report on Form 10-Q, we have classified the obligation as long term as of our balance sheet date.

As of February 26, 2023, the Company was not in compliance with all financial covenants under the Credit Facilities. As further described in Note 10 – Subsequent Events, on May 22, 2023, the Company entered into the New Term Loan Facility, and concurrently therewith, terminated the Prior Term Loan Facility and repaid the borrowings outstanding thereunder, and entered into a further amendment to the Revolving Credit Facility, at which time the Company was in compliance with all financial covenants under the New Term Loan Facility and the Revolving Credit Facility.

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 the Company's 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 matured in November 2022.

7. Business Segment Reporting

The Company historically operated 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 included activities from three natural food brands, including O Olive Oil & Vinegar, Yucatan Foods, and Cabo Fresh. The Curation Foods segment includes 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 and on February 7, 2023 the Company completed the sale of the avocado products business, including its Yucatan® and Cabo Fresh® brands. As a result, the Company met the requirements of ASC 205-20 to report the results of the Eat Smart and Yucatan Foods businesses as discontinued operations. The operating results for the Eat Smart and Yucatan Foods businesses, 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 – Yucatan Foods 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.

The Company's international sales by geography are based on the billing address of the customer and were as follows, excluding discontinued operations:

(In millions)	Three Months Ended February 26, 2023	Three Months Ended February 27, 2022	Nine Months Ended February 26, 2023	Nine Months Ended February 27, 2022
Switzerland	$ 6.8	$ 8.2	$ 14.8	$ 13.6
Canada	0.7	0.2	1.9	1.4
Czech Republic	0.7	0.7	2.4	2.4
Ireland	1.1	0.5	2.9	1.3
Australia	1.1	—	1.1	—
United Kingdom	0.6	0.9	1.4	2.2
All Other Countries	0.2	1.6	0.4	1.9

Operations by business segment consisted of the following:

(In thousands)	Lifecore	Curation Foods	Other	Total
Three Months Ended February 26, 2023				
Net sales	$ 26,330	$ 1,270	$ —	$ 27,600
Gross profit	6,072	(94)	—	5,978
Net (loss) income from continuing operations	851	280	(16,592)	(15,461)
Loss from discontinued operations, net of tax	—	(22,802)	(1,929)	(24,731)
Depreciation and amortization	1,878	243	10	2,131
Interest income	16	—	6	22
Interest expense	—	—	5,818	5,818
Income tax (benefit) expense	268	(3,019)	2,821	70
Corporate overhead allocation	739	241	(980)	—
Nine Months Ended February 26, 2023				
Net sales	$ 71,723	$ 6,025	$ —	$ 77,748
Gross profit	18,847	723	—	19,570
Net (loss) income from continuing operations	2,269	(1,974)	(35,008)	(34,713)
Loss from discontinued operations, net of tax	—	(27,350)	(1,929)	(29,279)
Depreciation and amortization	5,492	2,637	31	8,160
Dividend income	—	—	—	—
Interest income	47	—	6	53
Interest expense	—	1	13,714	13,715
Income tax (benefit) expense	717	(4,135)	3,496	78
Corporate overhead allocation	2,799	858	(3,657)	—

(In thousands)	Lifecore	Curation Foods	Other	Total
Three Months Ended February 27, 2022				
Net sales	$ 34,808	$ 2,591	$ —	$ 37,399
Gross profit	12,905	(39)	—	12,866
Net (loss) income from continuing operations	5,054	(5,380)	(6,312)	(6,638)
Loss from discontinued operations, net of tax	—	(3,407)	(3,041)	(6,448)
Depreciation and amortization	1,674	304	18	1,996
Interest income	18	—	2	20
Interest expense	—	26	4,079	4,105
Income tax (benefit) expense	1,596	(1,678)	(5)	(87)

	Curation Foods	Other	Corporate	Total
Corporate overhead allocation	1,175	289	(1,464)	—
Nine Months Ended February 27, 2022				
Net sales	$ 81,707	$ 8,433	$ —	$ 90,140
Gross profit	30,384	1,249	—	31,633
Net (loss) income from continuing operations	11,317	4,640	(27,340)	(11,383)
Loss from discontinued operations, net of tax	—	(46,692)	(3,041)	(49,733)
Depreciation and amortization	4,894	364	70	5,328
Interest income	57	—	9	66
Interest expense	—	300	13,577	13,877
Income tax (benefit) expense	3,574	(13,422)	4,257	(5,591)
Corporate overhead allocation	3,389	778	(4,167)	—

During the nine months ended February 26, 2023 and February 27, 2022, the Company had sales concentrations of 10% or greater from two customers. The Company's top two customers, from the Lifecore segment, accounted for 37% and 15% of total revenues for the nine months ended February 26, 2023, and 17% and 13% for the nine months ended February 27, 2022. The Company had accounts receivable concentrations of 10% or greater from two customers accounting for 47% and 10% of accounts receivable as of February 26, 2023, and two customers as of February 27, 2022 accounting for 25% and 19%.

8. 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 Comprehensive (Loss) Income, by Business Segment, excluding discontinued operations. There were no restructuring costs recognized on the Lifecore segment.

(in thousands)	Curation Foods	Other	Total
Three Months Ended February 26, 2023			
Employee severance and benefit costs	$ 683	$ 1,679	$ 2,362
Lease costs	43	—	43
Other restructuring costs	175	161	336
Total restructuring costs	$ 901	$ 1,840	$ 2,741

(in thousands)	Curation Foods	Other	Total
Nine Months Ended February 26, 2023			
Employee severance and benefit costs	927	1,679	2,606
Lease costs	88	—	88
Other restructuring costs	494	1,423	1,917
Total restructuring costs	$ 1,509	$ 3,102	$ 4,611

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 reduction-in-force related to our Curation Foods segment.

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. The Company approved a plan to explore opportunities to sub lease its Santa Maria office and expects to complete the sublease plan within the next 12 months.

Other restructuring costs

Other restructuring costs are primarily related to consulting costs incurred in connection with the execution 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.

The following table summarizes the restructuring costs recognized in the Company's Consolidated Statements of (Loss) Income, by Business Segment, since inception of the restructuring plan in fiscal year 2020 through the nine months ended February 26, 2023, excluding discontinued operations:

(in thousands)	Curation Foods	Other	Total
Asset write-off costs, net	$ 7,552	$ 418	$ 7,970
Employee severance and benefit costs	1,486	2,463	3,949
Lease costs	2,306	26	2,332
Other restructuring costs	817	6,321	7,138
Total restructuring costs	$ 12,161	$ 9,228	$ 21,389

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

9. Discontinued Operations

As discussed in Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies – Yucatan Disposition and Discontinued Operations, on February 7, 2023, we completed the Yucatan Disposition. Yucatan Foods 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 Securities Purchase Agreement, Yucatan meets the accounting requirements for reporting as discontinued operations for all periods presented. The Discontinued Operations includes the operations of Eat Smart prior to its sale.

There were no assets or liabilities of Yucatan Foods as of February 26, 2023. The assets and liabilities of Yucatan as of May 29, 2022 were as follows (in thousands):

	May 29, 2022
ASSETS	
Cash and cash equivalents	$ 652
Accounts receivable, less allowance for credit losses	8,078
Inventories	22,545
Prepaid expenses and other current assets	1,869
Total current assets, discontinued operations	33,144
Property and equipment, net	3,500
Operating lease right-of-use assets	2,061
Trademarks/tradenames, net	4,000
Customer relationships, net	1,400
Other assets	102
Total other non-current assets, discontinued operations	11,063
Total assets, discontinued operations	$ 44,207
LIABILITIES	
Accounts payable	$ 2,814
Accrued compensation	297
Other accrued liabilities	800
Current portion of lease liabilities	434
Total current liabilities, discontinued operations	4,345
Long-term lease liabilities	1,627
Non-current liabilities, discontinued operations	1,627
Total liabilities, discontinued operations	$ 5,972

The key components of income from discontinued operations for the three and nine months ended February 26, 2023 and February 27, 2022 were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	February 26, 2023	February 27, 2022	February 26, 2023	February 27, 2022
Product sales	$ 10,811	$ 29,234	$ 42,820	$ 234,773
Cost of product sales	12,571	29,041	44,812	222,948
Gross profit	(1,760)	193	(1,992)	11,825
Operating costs and expenses:				
Research and development	—	159	2	1,981
Selling, general and administrative	1,902	3,245	5,216	19,804
Impairment of intangible asset and goodwill	—	—	1,000	32,057
Loss on sale of Eat Smart	—	235	—	235
Loss on Sale of Yucatan	21,039		21,039	
Restructuring costs	30	3,209	30	4,642
Total operating costs and expenses	22,971	6,848	27,287	58,719
Operating loss	(24,731)	(6,655)	(29,279)	(46,894)
Interest expense	—	(204)	—	(2,682)
Loss from discontinued operations before taxes	(24,731)	(6,859)	(29,279)	(49,576)
Income tax benefit (expense)	—	411	—	(157)
Loss from discontinued operations, net of tax	$ (24,731)	$ (6,448)	$ (29,279)	$ (49,733)

Cash provided by operating activities by the Yucatan business totaled $0.1 million and $2.9 million for the nine months ended February 26, 2023 and 2022, respectively. There was no cash used in investing activities from the Yucatan business for the nine months ended February 26, 2023 and $2.5 million cash used in investing activities from the Yucatan business for the nine months ended February 27, 2022. Depreciation and amortization expense of the Yucatan business totaled $0.1 million and $0.8 million for the three months ended February 26, 2023 and 2022, respectively, and $0.5 million and $2.8 million for the nine months ended February 26, 2023 and 2022, respectively. There were no capital expenditures of the Yucatan business for the nine months ended February 26, 2023 and $2.5 million of capital expenditures for the nine months ended February 27, 2022.

There was no cash used, provided by, nor any capital expenditures of, the Eat Smart business for the nine months ended February 26, 2023. Cash used in operating activities and cash provided by investing activities by the Eat Smart business totaled $5.5 million and $117.8 million for the nine months ended February 27, 2022, respectively. Depreciation and amortization expense of the Eat Smart business totaled $0.3 million and $5.1 million for the three and nine months ended February 27, 2022. Capital expenditures of the Eat Smart business totaled $1.9 million for the nine months ended February 27, 2022.

10. Subsequent Events

Sale of O Olive Oil and Vinegar Business

On April 6, 2023, the Company completed the sale of its O Olive Oil and Vinegar Business. (“O Olive Sale”) for an aggregate purchase price of $6.2 million, subject to certain customary post-closing adjustments, consisting of approximately $3.1 million in cash and $3.1 million seller's note. The seller’s note matures on March 31, 2026, accrues interest at a rate of 12% payable in kind beginning on October 31, 2023, and is prepayable by the buyer at any time. Net proceeds from the transaction were used to repay borrowings under the Company’s credit facilities. The results of operations related to the O Olive business will be reported as discontinued operations beginning in the fourth quarter ended May 28, 2023. The Company is in the process of analyzing the results of the O Olive Sale, however it expects to recognize a loss on the O Olive Sale in the fourth quarter ended May 28, 2023. A potential range of losses cannot be estimated at this time.

Alcon Supply Agreement

On May 3, 2023, the Company entered into an Amended and Restated Supply Agreement (the “Supply Agreement”), dated May 3, 2023, with Alcon, which amended and restated certain existing supply agreements entered into between the Company and Alcon-Couvreur N.V., an affiliate of Alcon, related to the Company’s manufacture and supply of sodium hyaluronate (“HA”) for Alcon.

The initial term of the Supply Agreement expires December 31, 2033. Following the initial term, the Supply Agreement automatically extends for an additional two-year term unless Alcon provides the Company with a notice of non-renewal prior to the expiration of the initial term. The Supply Agreement also contains certain termination provisions which provide that the agreement may be terminated (a) by Alcon upon six months' written notice to the Company, or (b) by either party if the other party fails to perform or otherwise breaches any of its material obligations under the Supply Agreement, the non-breaching party notifies the breaching party of its intent to terminate the Supply Agreement, and the breaching party fails to cure such breach.

The Supply Agreement contains terms and provisions customary for transactions of this type, including product warranties and confidentiality and indemnification obligations. Orders of HA pursuant to the Supply Agreement are based on customary forecasting mechanics and are payable by Alcon based on certain prices that are subject to annual index-based adjustments. Pursuant to the Supply Agreement, the Company is also required to commit certain HA manufacturing capacity based on Alcon's forecasts. Alcon and the Company have also agreed to negotiate in good faith to finalize a plan to increase the Company's HA manufacturing capacity to meet the anticipated volumes. In the event the Company is unable to supply the agreed-upon volumes and safety stock pursuant to the Supply Agreement, under certain circumstances, Alcon will be entitled to certain rights with respect to the manufacturing and supply of HA for Alcon.

New Term Loan Credit Facility

On May 22, 2023, the Company, Curation and Lifecore Biomedical (together with the Company and Curation, the "Borrowers"), certain of the Company's other subsidiaries, as guarantors, and Alcon, as administrative agent, collateral agent and lender, entered into that certain Credit and Guaranty Agreement (the "New Term Loan Credit Facility"). The New Term Loan Credit Facility refinanced in full all obligations of the Borrowers and their subsidiaries under the Prior Term Loan Credit Facility, which was terminated upon the entry into the New Term Loan Credit Facility and all noncompliance with debt covenants was thereby cured.

The New Term Loan Credit Facility provides for up to $140.0 million in term loans, subject to certain adjustments based on the post-closing adjustments to the Purchase Price (as defined in the Equipment Sale and Leaseback Agreement, defined below), which were funded in full on May 22, 2023. The obligations under the New Term Loan Credit Facility mature on May 22, 2029. The New Term Loan Credit Facility is secured by the same collateral that secures the Revolving Credit Facility (as defined below), with relative priorities in respect thereof, as set forth in the Intercreditor Agreement (as defined below).

The loans under the New Term Loan Credit Facility have a fixed interest rate equal to 10% per annum. Interest is payable-in-kind until the third anniversary of the closing date and following the third anniversary of the closing date is payable at a rate equal to 3% per annum in cash with the remainder payable-in-kind, in each case, unless otherwise elected by the Borrowers to pay a greater proportion in cash. The New Term Loan Credit Facility contains customary affirmative covenants including, but not limited to, financial reporting requirements and maintenance of existence requirements and negative covenants, including, but not limited to, limitations on the incurrence of debt, liens, investments, restricted payments, restricted debt payments, and affiliate transactions. The New Term Loan Credit Facility contains one financial covenant, a minimum liquidity covenant, requiring $4.0 million of Consolidated Liquidity (as defined in the New Term Loan Credit Facility) as of the end of each fiscal quarter of the Company.

In connection with the New Term Loan Facility, the Company wrote off deferred financing costs amounting to $7.5 million and paid prepayment penalties of $12.9 million to our prior term loan lenders.

Pledge and Security Agreement

Also on May 22, 2023, the Borrowers and certain of the Company's other subsidiaries, as grantors (collectively, the "Grantors"), entered into that certain Pledge and Security Agreement (the "Term Loan Security Agreement"), dated as of May 22, 2023, with Alcon, as collateral agent. Pursuant to the Term Loan Security Agreement, the Grantors secured their obligations under the New Term Loan Credit Facility by granting to Alcon, as collateral agent, a first priority security interest in certain collateral, including but not limited to equipment, fixtures, real property and intellectual property. The security interest granted by the Grantors under the Term Loan Security Agreement continues in effect until the payment in full of all of the secured obligations under the New Term Loan Credit Facility.

Amendment to Revolving Credit Agreement

On May 22, 2023, the Borrowers and certain of the Company's other subsidiaries, as guarantors, entered into a Limited Waiver, Consent and Fifth Amendment (the "Revolving Loan Amendment") to the Revolving Credit Facility

The Revolving Loan Amendment provides for, among other things, (i) a waiver of all known existing defaults under the Revolving Credit Agreement as of the date of the Revolving Loan Amendment, (ii) the reduction of the maximum amount available under the Revolving Credit Agreement to up to the lesser of (x) $40.0 million, less a reserve for certain secured credit products, if any, and (y) the borrowing base (which, pursuant to the Revolving Loan Amendment, was modified to include a further reduction of the borrowing base by an additional $4.0 million), (iii) the modification of the springing minimum fixed charge coverage ratio of 1.00 to 1.00, with such covenant not tested until the fiscal quarter ending on or about February 28, 2024 and, on or thereafter, upon the earlier of the occurrence of an Event of Default or availability being less than the greater of 10% of the maximum borrowing amount and $4.0 million, (iv) cash dominion at all times the Revolving Credit Facility remains outstanding, and (v) certain other revisions to align with the terms of the New Term Loan Credit Facility and address the relative priorities and credit for borrowings related to the Company’s commercial relationships with Alcon.

In connection with the entry into the Revolving Loan Amendment, the Company also agreed to pay to BMO an amendment fee of $1.2 million, $800,000 of which is paid concurrently with the Company’s entry into the Revolving Loan Amendment, with the remaining $400,000 payable upon the earlier of (i) repayment in full of the Company’s obligations, and termination of all commitments, under the Revolving Credit Facility and (ii) the occurrence of a Change of Control (as defined in the Revolving Credit Facility).

BMO and Alcon also entered into an intercreditor agreement regarding their relative rights, as lenders, in the assets of the Company and its subsidiaries that serve as collateral for their respective credit facilities (the “Intercreditor Agreement”).

In connection with the Revolving Loan Amendment, the Company wrote off deferred financing costs amounting to $0.6 million during the fourth quarter of fiscal year 2023.

As the Company's borrowings under the Amended Loan Amendments for the next twelve months will increase to above the $16.0 million as of the balance sheet date, and scheduled repayments is not due until December 31, 2025, we have determined the line of credit to be classified as a long-term liability as of February 26, 2023.

Equipment Sale and Leaseback Agreements

On May 22, 2023, the Company entered into that certain Equipment Sale and Leaseback Agreement (the “Equipment Sale and Leaseback Agreement” and, together with the Equipment Sale Leaseback Agreement, the New Term Loan Credit Facility, the Term Loan Security Agreement, and the Revolving Loan Amendment, collectively, the “Refinancing Transactions”), dated May 22, 2023, with Alcon, wherein the Company sold $10.0 million (subject to certain post-closing adjustments) (the “Purchase Price”) of certain equipment, machinery, and other property associated with the production of sodium hyaluronate (the “Equipment”) to Alcon. The Equipment Sale Leaseback Agreement contains an option for the Company to repurchase the Equipment upon the earlier of (i) seven (7) years and (ii) the expansion of the Company’s existing production capacity with respect to sodium hyaluronate, for a purchase price equal to the Purchase Price, less the aggregate of all Paydown Payments (as defined in the Equipment Lease Agreement).

Concurrently with the entry into the Equipment Sale and Leaseback Agreement, the Company entered into that certain Equipment Lease Agreement (the “Equipment Lease Agreement”), dated May 22, 2023, with Alcon, wherein Alcon leased the Equipment back to the Company. The Equipment Lease Agreement expires upon the earlier of (i) May 22, 2033, and (ii) the date that the Equipment is repurchased by the Company pursuant to the terms of the Equipment Lease Agreement. Upon the expiration of the Equipment Lease Agreement on May 22, 2033, the Company shall automatically repurchase the Equipment for $1.00 (if not previously repurchased pursuant to the option under the Equipment Sale and Leaseback Agreement).

During the lease term, the Company is obligated to make quarterly rental payments to Alcon equal to (i) 1/40th of the Purchase Price (the “Paydown Payments”), plus (ii) 1.5% times the Purchase Price less cumulative Paydown Payments made.

The Equipment Lease Agreement contains terms and provisions (including representations, covenants and conditions) that are generally customary for a commercial lease of this nature, including obligations relating to the use, operation and maintenance of the Equipment. During the term of the lease, Alcon is not permitted to sell or encumber the Equipment. Alcon is only entitled to cancel the Equipment Lease Agreement in the event of insolvency, liquidation or bankruptcy, and its remedies for other breaches of the Equipment Lease Agreement are otherwise limited to monetary damages.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the unaudited consolidated financial statements and accompanying notes included in Part I, Item 1, of this Form 10-Q and the audited consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Lifecore Biomedical's Annual Report on Form 10-K/A for the fiscal year ended May 29, 2022.

This Quarterly Report on Form 10-Q, 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, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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 impact of adverse and uncertain economic conditions in the U.S. and international markets, the mix between domestic and international sales, our ability to continue as a going concern, and those other risks mentioned in this report and in our Annual Report on Form 10-K/A for the fiscal year ended May 29, 2022.

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" and in our Annual Report on Form 10-K/A for the fiscal year ended May 29, 2022.

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, our Annual Report on Form 10-K/A for the fiscal year ended May 29, 2022, 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. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Critical Accounting Policies and Use of Estimates

There have been no material changes to the Company's critical accounting policies and use of estimates from those disclosed in the Company's Form 10-K/A for the fiscal year ended May 29, 2022. For a discussion of our critical accounting policies and use of estimates, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Use of Estimates in Part II, Item 7 of the Company's Annual Report on Form 10-K/A for the fiscal year ended May 29, 2022.

The Company

Corporate Overview

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

Lifecore Biomedical's biomedical company, Lifecore Biomedical Operating Company, Inc. ("Lifecore"), 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. 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 Biomedical'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.

Lifecore Biomedical was incorporated in California on October 31, 1986 and reincorporated as a Delaware corporation on November 6, 2008. Landec's common stock was previously listed on the NASDAQ Global Select Market under the symbol "LNDC". The Company's principal executive offices are located at 3515 Lyman Boulevard Chaska, Minnesota 55318, and the telephone number is (952) 368-4300.

On November 14, 2022, the Company filed an amendment to its Certificate of Incorporation to change the Company's name from Landec Corporation to Lifecore Biomedical, Inc. ("Name Change"), which was approved by the board of directors of the Company and became effective on November 14, 2022. In connection with the Name Change, the Company's common stock began trading under its new NASDAQ ticker symbol "LFCR" on November 15, 2022. References to "Landec" or "Landec Corporation" refer to operations and/or transactions of the Company prior to the Name Change.

Going Concern Update

As disclosed in the Company's previous filings, the Company had previously determined that there were factors, which was principally the result of our noncompliance with financial covenants, that raised substantial doubt about its ability to continue as a going concern. Since that time, the Company has taken measures to strengthen its financial position, including the repayment and termination of the Prior Term Loan Facility, and the entry into the Refinancing Transactions (defined below), in each case, on May 22, 2023. The Refinancing Transactions provided the Company with additional liquidity, eliminated the Company's noncompliance with its financial covenants under Credit Facilities (including granting the Company applicable waivers under the Revolving Term Loan Facility), reduced the Company's near-term debt service costs, and eliminated certain financial covenants that existed under the Prior Term Loan Facility. In addition, the completion of the Company's sale of the Yucatan and O Olive business, and the entry into an amended and restated supply agreement with Alcon Research, LLC ("Alcon") to extend and expand its prior supply agreement, as further described in Note 10 – Subsequent Events, also provided the Company with additional liquidity. The cash provided under the Refinancing Transactions, completed divestitures of remaining Curation Foods businesses, and the lower debt service costs under our Refinancing Transactions provide improved forecasted cash flow from operations that allow sufficient liquidity over the next 12 months to meet our obligations as they come due.

Based on the foregoing, management believes that our cash position as of the date of filing these financial statement (the "Filing Date") and forecasted cash flow from operations is sufficient to meet capital and liquidity requirements for at least the next 12 months. As a result, there is no longer substantial doubt about the Company's ability to continue as a going concern.

Securities Purchase Agreement

On November 25, 2022, the Company entered into a Securities Purchase Agreement (the "Wynnefield Purchase Agreement") with entities affiliated with Wynnefield Capital, Inc. (the "Purchasers"). Pursuant to the Wynnefield Purchase Agreement, the Company agreed to sell an aggregate of 627,746 shares of its common stock (the "Shares") for aggregate gross proceeds of approximately $5.0 million (the "Offering"). The purchase price for each Share was $7.97. The Offering closed on November 25, 2022. Pursuant to the Wynnefield Purchase Agreement, the Company granted the Purchasers certain piggyback registration rights and agreed, among other things, to indemnify such parties under any registration statement filed that includes the Shares from certain losses, claims, damages and liabilities.

Series A Convertible Preferred Share Purchase Agreement

On January 9, 2023, the Company simultaneously signed and closed the Preferred Share Purchase Agreement with a group of qualified investors. Pursuant to the Preferred Share Purchase Agreement, the Company issued and sold an aggregate of 38,750 shares of a new series of convertible preferred stock of the Company designated as Series A Convertible Preferred Shares, par value $0.001 per share (the "Convertible Preferred Stock") for an aggregate of $38.8 million. The Convertible Preferred Stock ranks senior to the Company's Common Stock with respect to dividends, distributions and payments on liquidation, winding up and dissolution. Each holder of Convertible Preferred Stock has the right, at its option, to convert its Convertible Preferred Stock, in whole or in part, into fully paid and non-assessable shares of our Common Stock at an initial conversion price equal to $7.00 per share. The conversion price is subject to customary anti-dilution adjustments, including in the event of any stock split, stock dividend, recapitalization or similar events, and is also subject to adjustment in the event of subsequent offerings of Common Stock or convertible securities by the Company for less than the conversion price. Immediately following the closing of the Preferred Share Repurchase Agreement, two Series A Convertible Preferred Stock directors were appointed to the Company's Board of Directors.

Yucatan Disposition

On February 7, 2023 (the "Closing Date"), Company, Camden Fruit Corp., a direct wholly owned subsidiary of Curation Foods and an indirect wholly owned subsidiary of the Company ("Camden" and together with the Curation Foods and the Company, the "Sellers"), Yucatan Foods, LLC, a wholly owned subsidiary of the Camden ("Yucatan"), and Yucatan Acquisition Holdings LLC, a wholly owned subsidiary of Flagship Food Group LLC ("Buyer" and together with Yucatan and the Sellers, the "Parties") completed the sale (the "Yucatan Disposition") of the Company's avocado products business, including its Yucatan® and Cabo Fresh® brands, as well as the associated manufacturing facility and operations in Guanajuato, Mexico (the "Business"), pursuant to the terms of a securities purchase agreement executed by the Parties on February 7, 2023 (the "Securities Purchase Agreement"). Pursuant to the Securities Purchase Agreement, Buyer acquired all of the outstanding equity securities of Yucatan for a purchase price of $17.5 million in cash, subject to certain post-closing adjustments at closing, including selling costs, net working capital and other adjustments amounting to $5.0 million. The Company recognized a loss on the Yucatan Disposition of $21.0 million in the third quarter ended February 26, 2023. The loss on the Yucatan Disposition is recorded in loss from discontinued operations in the Consolidated Statement of Comprehensive (Loss) Income.

Sale of O Olive Oil and Vinegar Business

On April 6, 2023, the Company completed the sale of all of its Curation Foods' assets related to the O Olive Oil and Vinegar Business. ("O Olive Sale") for an aggregate purchase price of $6.2 million, subject to certain customary post-closing adjustments, consisting of approximately $3.1 million in cash and $3.1 million seller's note. The seller's note matures on March 31, 2026, accrues interest at a rate of 12% payable in kind beginning on October 31, 2023 and is prepayable by the buyer at any time. Net proceeds from the transaction were used to repay borrowings under the Company's credit facilities. The results of operations related to the O Olive Business will be reported as discontinued operations beginning in the fourth quarter ended May 28, 2023. The Company is in the process of analyzing the results of the O Olive Sale, however it expects to recognize a loss on the O Olive Sale in the fourth quarter ended May 28, 2023. A potential range of losses cannot be estimated at this time.

Reportable Segments

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

Lifecore

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 37 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.

On June 2, 2022, the Company sold its BreatheWay technology business for $3.2 million in cash (the "BreatheWay Sale").

Following the Eat Smart Disposition, as well as the BreatheWay Sale and Yucatan Disposition subsequent to fiscal year end, Curation Foods retained its O Olive business, and the Company retained 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: The Company acquired O Olive on March 1, 2017. O Olive, 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. As discussed above, on April 6, 2023, the Company sold its O Olive Oil and Vinegar business.

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. On February 7, 2023, the Company sold its Yucatan Foods business for $17.5 million in cash and recognized a loss on the Yucatan Disposition of $21.0 million in this third quarter ended February 26, 2023.

Impairment Review of Long-lived and Indefinite-lived assets

During the nine months ended February 26, 2023, the Company recorded impairment charges of $1.0 million related to Yucatan Foods indefinite-lived intangible asset related to tradenames. In addition, during the nine months ended February 26, 2023, the Company recorded an impairment charge of $0.3 million related to O Olive's indefinite-lived intangible asset for tradenames. The impairments were determined using the royalty savings method to estimate the fair value of its trademarks and was primarily a result of an indication of a decrease in the fair market value of the Yucatan Foods and O Olive businesses driven by lower market valuations and a decrease in projected cash flows. The impairment charge is included in the line item "Impairment of indefinite-lived intangible assets" on the Consolidated Statements of Comprehensive (Loss) Income and is reported in the Curation Foods business segment (See Note 7 – Business Segment Reporting).

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.

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 Yucatan Disposition, the Company met the requirements of ASC 205-20, to report the results of the Yucatan business as a discontinued operation. Accordingly, the operating results for the Yucatan business have therefore been reclassified as a discontinued operations for the periods presented.

(In thousands)	Three Months Ended		Change		Nine Months Ended		Change	
	February 26, 2023	February 27, 2022	Amount	%	February 26, 2023	February 27, 2022	Amount	%
Lifecore	$ 26,330	$ 34,808	(8,478)	(24)%	$ 71,723	$ 81,707	(9,984)	(1
Curation Foods	1,270	2,591	(1,321)	(51)%	6,025	8,433	(2,408)	(2
Total Revenues	$ 27,600	$ 37,399	$ (9,799)	(26)%	$ 77,748	$ 90,140	$ (12,392)	(1

Lifecore

The decrease in Lifecore's revenues for the three months ended February 26, 2023, compared to the same period last year, was due to a $7.0 million decrease in CDMO sales primarily due to the timing of shipments and lower development revenue associated with a delay in onboarding new customers as well as a $1.5 million decrease in fermentation revenues primarily due to the timing of shipments within the fiscal year.

The decrease in Lifecore's revenues for the nine months ended February 26, 2023, compared to the same period last year, was due to a $11.9 million decrease in CDMO for the same reasons as described above for the three months ended February 26, 2023, partially offset by a $1.9 million increase in fermentation revenues primarily due to the timing of shipments in the prior year period, which was influenced by excess channel inventory as a result of the global pandemic's negative impact on elective procedures.

Curation Foods

The decrease in Curation Foods' revenues for the three and nine months ended February 26, 2023, compared to the same period last year, was driven by the sale of our BreatheWay packaging technology business on June 2, 2022 which as a result of the sale did not earn any revenue during the three and nine months ended February 26, 2023 compared to $0.4 million and $1.4 million, respectively, during the three and nine months ended February 27, 2022.

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)	Three Months Ended		Change		Nine Months Ended		Change	
	February 26, 2023	February 27, 2022	Amount	%	February 26, 2023	February 27, 2022	Amount	
Lifecore	$ 6,072	$ 12,905	$ (6,833)	(53)%	$ 18,847	$ 30,384	$ (11,537)	
Curation Foods	(94)	(39)	(55)	141 %	723	1,249	(526)	
Total Gross Profit	$ 5,978	$ 12,866	$ (6,888)	(54)%	$ 19,570	$ 31,633	$ (12,063)	

Lifecore

The decrease in gross profit for the Lifecore business for the three and nine months ended February 26, 2023, compared to the same period last year, was due primarily to decreased revenue, as well as an unfavorable sales mix.

Curation Foods

The decrease in gross profit for the Curation Foods business for the three and nine months ended February 26, 2023, compared to the same period last year, was primarily driven by increased freight costs combined with increased raw product sourcing costs.

Operating Expenses:

Research and Development

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.

(In thousands)	Three Months Ended		Change		Nine Months Ended		Change	
	February 26, 2023	February 27, 2022	Amount	%	February 26, 2023	February 27, 2022	Amount	%
Lifecore	$ 1,962	$ 1,978	$ (16)	(1)%	$ 6,117	$ 5,309	$ 808	15
Curation Foods	2	22	(20)	(91)%	11	413	(402)	(97
Total R&D	$ 1,964	$ 2,000	$ (36)	(2)%	$ 6,128	$ 5,722	$ 406	7

The increase in R&D expenses for the nine months ended February 26, 2023, compared to the same period last year, was primarily due to higher salary and benefits expenses, including increased headcount, in our Lifecore Segment. These increases were offset by small decreases in the Curation foods segment. The decrease in R&D expenses for the three months ended February 26, 2023 was not significant.

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

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

(In thousands)	Three Months Ended		Change		Nine Months Ended		Change	
	February 26, 2023	February 27, 2022	Amount	%	February 26, 2023	February 27, 2022	Amount	%
Lifecore	$ 2,267	$ 3,119	$ (852)	(27)%	$ 6,992	$ 6,852	$ 140	2
Curation Foods	1,605	6,935	(5,330)	(77)%	6,431	8,327	(1,896)	(23
Other	7,100	4,109	2,991	73 %	17,778	12,480	5,298	42
Total SG&A	$ 10,972	$ 14,163	$ (3,191)	(23)%	$ 31,201	$ 27,659	$ 3,542	13

The decrease in total SG&A expenses for the three months ended February 26, 2023, compared to the same period last year, was due primarily to a decrease in salary and benefits expenses in our Lifecore and Curation Foods segments.

The increase in total SG&A expenses for the nine months ended February 26, 2023, compared to the same period last year, was due primarily to an increase at our Other segment primarily due to an increase in legal fees from compliance and other litigation matters.

Restructuring Costs

(In thousands)	Three Months Ended		Change		Nine Months Ended		Change
	February 26, 2023	February 27, 2022	Amount	%	February 26, 2023	February 27, 2022	Amount
Lifecore	$ —	$ —	$ —	— %	$ —	$ —	$ —
Curation Foods	901	5,220	(4,319)	(83)%	1,509	5,405	(3,896)
Other	1,840	50	1,790	3,580 %	3,102	2,125	977
Total SG&A	$ 2,741	$ 5,270	$ (2,529)	(48)%	$ 4,611	$ 7,530	$ (2,919)

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 $2.7 million and $5.3 million during the three months ended February 26, 2023 and February 27, 2022, respectively, related to the restructuring plan. Restructuring costs for the nine months ended February 26, 2023 decreased $2.9 million compared to the prior year period due to decreased restructuring activity in our Other Segment as part of our Project SWIFT initiatives to sell Curation Foods assets. Refer to Note 8 - Restructuring Costs in the notes to our consolidated financial statements for more information.

Impairment of Long-lived and Indefinite-Lived Intangible Assets

As discussed above, during the nine months ended February 26, 2023, the Company recorded impairment charges on Yucatan's and O Olive's tradenames, which amounted to $1.3 million in the aggregate. A similar charge did not occur during the nine months ended February 27, 2022. The impairment charge is allocated to the Curation Foods segment in its entirety. Refer to “Impairment Review of Long-Lived and Indefinite-Lived Intangible Assets” in this Management’s Discussion and Analysis for additional details and information.

Other:

(In thousands)	Three Months Ended		Change		Nine Months Ended		Change	
	February 26, 2023	February 27, 2022	Amount	%	February 26, 2023	February 27, 2022	Amount	%
Interest Income	$ 22	$ 20	$ 2	10 %	$ 53	$ 66	$ (13)	(20)%
Interest Expense	$ (5,818)	$ (4,105)	$ (1,713)	42 %	$ (13,715)	$ (13,877)	$ 162	(1)%
Other Income (Expense), net	$ 34	$ 454	$ (420)	(93)%	$ (481)	$ 642	$ (1,123)	N/M
Income Tax (Expense) Benefit	$ (70)	$ 87	$ (157)	N/M	$ (78)	$ 5,591	$ (5,669)	N/M

Interest Income

The increase and decrease in interest income for the three and nine months ended February 26, 2023, respectively, compared to the same period last year, was not significant.

Interest Expense

The increase in interest expense for the three months ended February 26, 2023, compared to the same period last year, was primarily a result of increased interest rates.

The decrease in interest expense for the nine months ended February 26, 2023, compared to the same period last year, was primarily due to (i) prepayment penalties incurred related to payments made on our term debt resulting from the sales of our investment in Windset during the three months ended February 27, 2022, which did not reoccur during the nine months ended February 26, 2023; and (ii) lower outstanding debt balances for the nine months ended February 26, 2023 compared to the nine months February 27, 2022. This decrease was offset by the change in interest rates during the three months ended February 26, 2023 as described above.

Other Income (Expense)

The decrease in other income (expense) for the three months ended February 26, 2023, compared to the same period last year, was primarily the result of the change in the fair value of our interest rate swap liability that is no longer an effective hedge as a result of our debt refinancing in December 2020.

Income Taxes

The change in income tax benefit for the three months ended February 26, 2023 compared to the same period last year was primarily due to the Company’s effective tax rate for the three months ended February 26, 2023 changed from a tax benefit of 1.3% to a tax provision expense of 0.4% in comparison to the same period last year. The decrease in the effective tax rate for the three months ended February 26, 2023 was primarily due to the valuation allowance recorded against certain deferred tax assets, partially offset by the impact of federal and state research and development tax credits.

The change in income tax benefit for the nine months ended February 26, 2023 compared to the same period last year was primarily due to the Company’s effective tax rate for the nine months ended February 26, 2023 changed from a tax provision benefit of 32.9% to a tax provision expense of 0.2% in comparison to the same period last year. The decrease in the effective tax rate for the nine months ended February 26, 2023 was primarily due to an increase in valuation allowance recorded against certain deferred tax assets, partially offset by the impact of federal and state research and development tax credits.

Liquidity and Capital Resources

As of February 26, 2023, the Company had cash and cash equivalents of $3.0 million, a net increase of $2.0 million from $1.0 million as of May 29, 2022.

Cash Flow from Operating Activities

Net cash used in operating activities during the nine months ended February 26, 2023 was $17.2 million, compared to $22.0 million of net cash used in operating activities for the same period last year. The primary uses of net cash in operating activities during the nine months ended February 26, 2023 were (1) a $64.0 million net loss and (2) $2.1 million gain on sale of BreatheWay assets. These uses of cash were partially offset by (1) a $14.2 million net decrease in working capital and (2) $13.2 million of depreciation/amortization and stock-based compensation expense.

The primary factors for the decrease in working capital during the nine months ended February 26, 2023, was a $13.5 million increase in inventory driven by the increased in total inventory of $8.8 million in Curation Foods, which is in alignment with our expectations for production season, a $9.0 million decrease in accounts receivable driven by timing of customer payments, partially offset by a $1.9 million decrease in accrued compensation driven by severance payments. In addition, cash used in accounts payable increased $11.4 million due to timing.

Cash Flow from Investing Activities

Net cash used in investing activities during the nine months ended February 26, 2023 was $3.3 million, compared to $98.8 million of net cash provided by for the same period last year. Net cash used in investing activities during the nine months ended February 26, 2023 was primarily due to the receipt of $12.5 million and $3.1 million related to the sale of our Yucatan Foods and BreatheWay assets, respectively, partially offset by the purchase of $12.3 million of equipment to support the growth of the Company's Lifecore business. The three months ended February 27, 2022 included cash provided of $73.5 million of proceeds from the sale of Eat Smart and $45.1 million related to the sale of investment in non-public company, which did not reoccur in the three months ended February 26, 2023.

Cash Flow from Financing Activities

Net cash provided by financing activities during the nine months ended February 26, 2023 was $15.1 million compared to $76.2 million of net cash used in financing activities for the same period last year. The net cash provided by financing activities during the nine months ended February 26, 2023 was primarily due to $38.1 million of proceeds from the sale of preferred stock, net of issuance costs, $18.4 million increase in the Company's line of credit, $4.8 million proceeds from a sale of common stock and $3.4 million of proceeds from the issuance of long-term debt, partially offset by $42.4 million of payments from the line of credit, $3.7 million of payments for debt issuance costs and $3.2 million of payments on long-term debt. The nine months ended February 27, 2022 included cash provided of $86.4 million related to payments on long-term debt, which were minimal in the nine months ended February 26, 2023.

Capital Expenditures

During the nine months ended February 26, 2023, the Company incurred $12.3 million of capital expenditures, which was primarily represented by facility expansions and purchased equipment to support the growth of the Lifecore business, compared to capital expenditures of $18.5 million for the nine months ended February 27, 2022. During the nine months ended February 26, 2023, capital expenditures for Lifecore and Curation Foods were $12.2 million and $0.1 million, respectively.

Debt

On December 31, 2020, the Company refinanced its previously existing term loan and revolving credit facility by entering into (1) a credit agreement with Goldman Sachs Specialty Lending Group, L.P. ("Goldman") and Guggenheim Credit Services, LLC ("Guggenheim"), as lenders, which provided the Company, Curation Foods and Lifecore, as co-borrowers, with term loan borrowings of up to $170.0 million (the "Prior Term Loan Facility"), and (ii) a credit agreement with BMO Harris Bank, N.A. ("BMO") as lender, which provided the Company, Curation Foods and Lifecore, as co-borrowers, with an up to $75.0 million revolving line of credit (the "Revolving Credit Facility" and, together with Prior Term Loan Facility, the "Credit Facilities"). The Revolving Credit Facility is, and the Prior Term Loan Facility was, guaranteed, and secured by, substantially all of the Company's and the Company's direct and indirect subsidiaries' assets.

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

On January 9, 2023, the Company entered into further amendments to the Credit Facilities to, among other things, provide for the limited waiver from events of default under the Credit Facilities related to certain financial covenant requirements, as well as a waiver of certain existing terms and covenants under the Prior Term Loan Facility, including with respect to the fixed coverage charge ratio, leverage ratio and minimum liquidity covenants, a 2% increase of annual interest rate, which was payable in kind, and a one-time amendment fee in an amount equal to 3% of the principal amount as of January 9, 2023. This amendment also reduced the maximum commitment under the Revolving Credit Facility from $75.0 million to $60.0 million, which was further reduced to $50.0 million upon the sale of Yucatan.

The Prior Term Loan Facility would have matured on December 31, 2025. The Revolving Term Facility matures on December 31, 2025.

Interest on the Revolving Credit Facility is based upon the Company's average availability, at a per annum rate of either (i) SOFR 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% and plus (iii) for the period from December 1, 2022 until January 31, 2023, additional 2% per annum. Interest on the Prior Term Loan Facility was at a per annum rate based on either (i) the base rate plus a spread of 7.50% or (ii) the SOFR rate plus a spread of 8.50%. The Prior Term Loan Facility also provided 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 Revolving Credit Facility contains, and the Prior Term Loan Facility contained, 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 January 2023 amendments to the Credit Facilities, the Company incurred debt issuance costs from the lender and third parties of $1.1 million and $62.5 thousand, respectively, during the nine months ended February 26, 2023.

As of February 26, 2023, the Company had $16.0 million in borrowings outstanding under the Amended Revolver Credit Facility, at an effective annual interest rate of 7.2%. As of February 26, 2023, the Company had $107.0 million in borrowings outstanding under the Prior Term Loan Facility, at an effective annual interest rate of 13.2%. As the Company was able to refinance the Term Debt with New Term Debt subsequent to February 26, 2023 but prior to the filing of this Quarterly Report on Form 10-Q, we have classified the obligation as long term as of our balance sheet date.

As of February 26, 2023, the Company was not in compliance with all financial covenants under the Credit Facilities. However, as more fully described in Note 10 – Subsequent Events, on May 22, 2023, the Company entered into the New Term Loan Facility, and concurrently therewith, terminated the Prior Term Loan Facility and repaid the borrowings outstanding thereunder, and entered into a further amendment to the Revolving Credit Facility, at which time the Company was in compliance with all financial covenants under the New Term Loan Facility and the Revolving Credit Facility.

Refinancing Transactions

New Term Loan Credit Facility

On May 22, 2023, Company, Curation and Lifecore Biomedical (together with the Company and Curation, the "Borrowers"), certain of the Company's other subsidiaries, as guarantors, and Alcon Research, LLC ("Alcon"), as administrative agent, collateral agent and lender, entered into that certain Credit and Guaranty Agreement (the "New Term Loan Credit Facility"). The New Term Loan Credit Facility refinanced in full all obligations of the Borrowers and their subsidiaries under the Prior Term Loan Credit Facility, which was terminated upon the entry into the New Term Loan Credit Facility and all noncompliance with debt covenants was thereby cured.

The New Term Loan Credit Agreement provides for up to $140.0 million in term loans, subject to certain adjustments based on the post-closing adjustments to the Purchase Price (as defined in the Equipment Sale and Leaseback Agreement, defined below), which were funded in full on May 22, 2023. The obligations under the New Term Loan Credit Facility mature on May 22, 2029. The New Term Loan Credit Facility is secured by the same collateral that secures the Revolving Credit Facility, with relative priorities in respect thereof, as set forth in the Intercreditor Agreement (as defined below).

The loans under the New Term Loan Credit Facility have a fixed interest rate equal to 10% per annum. Interest is payable-in-kind until the third anniversary of the closing date and following the third anniversary of the closing date is payable at a rate equal to 3% per annum in cash with the remainder payable-in-kind, in each case, unless otherwise elected by the Borrowers to pay a greater proportion in cash. The New Term Loan Credit Facility contains customary affirmative covenants including, but not limited to, financial reporting requirements and maintenance of existence requirements and negative covenants, including, but not limited to, limitations on the incurrence of debt, liens, investments, restricted payments, restricted debt payments, and affiliate transactions. The New Term Loan Credit Facility contains one financial covenant, a minimum liquidity covenant, requiring $4.0 million of Consolidated Liquidity (as defined in the New Term Loan Credit Facility) as of the end of each fiscal quarter of the Company.

Pledge and Security Agreement

Also on May 22, 2023, the Borrowers and certain of the Company's other subsidiaries, as grantors (collectively, the "Grantors"), entered into that certain Pledge and Security Agreement (the "Term Loan Security Agreement"), dated as of May 22, 2023, with Alcon, as collateral agent. Pursuant to the Term Loan Security Agreement, the Grantors secured their obligations under the New Term Loan Credit Facility by granting to Alcon, as collateral agent, a first priority security interest in certain collateral, including but not limited to equipment, fixtures, real property and intellectual property. The security interest granted by the Grantors under the Term Loan Security Agreement continues in effect until the payment in full of all of the secured obligations under the New Term Loan Credit Facility.

Amendment to Revolving Credit Facility

On May 22, 2023, the Borrowers and certain of the Company's other subsidiaries, as guarantors, entered into a Limited Waiver, Consent and Fifth Amendment (the "Revolving Loan Amendment") to the Revolving Credit Facility.

The Revolving Loan Amendment provides for, among other things, (i) a waiver of all known existing defaults under the Revolving Credit Agreement as of the date of the Revolving Loan Amendment, (ii) the reduction of the maximum amount available under the Revolving Credit Agreement to up to the lesser of (x) $40.0 million, less a reserve for certain secured credit products, if any, and (y) the borrowing base (which, pursuant to the Revolving Loan Amendment, was modified to include a further reduction of the borrowing base by an additional $4.0 million), (iii) the modification of the springing minimum fixed charge coverage ratio of 1.00 to 1.00, with such covenant not tested until the fiscal quarter ending on or about February 28, 2024 and, on or thereafter, upon the earlier of the occurrence of an Event of Default or availability being less than the greater of 10% of the maximum borrowing amount and $4.0 million, (iv) cash dominion at all times the Revolving Credit Facility remains outstanding, and (v) certain other revisions to align with the terms of the New Term Loan Credit Facility and address the relative priorities and credit for borrowings related to the Company's commercial relationships with Alcon.

In connection with the entry into the Revolving Loan Amendment, the Company also agreed to pay to BMO an amendment fee of $1.2 million, $800,000 of which is paid concurrently with the Company's entry into the Revolving Loan Amendment, with the remaining $400,000 payable upon the earlier of (i) repayment in full of the Company's obligations, and termination of all commitments, under the Revolving Credit Facility and (ii) the occurrence of a Change of Control (as defined in the Revolving Credit Facility).

BMO and Alcon also entered into an intercreditor agreement regarding their relative rights, as lenders, in the assets of the Company and its subsidiaries that serve as collateral for their respective credit facilities (the "Intercreditor Agreement").

Equipment Sale and Leaseback Agreements

On May 22, 2023, the Company entered into that certain Equipment Sale and Leaseback Agreement (the "Equipment Sale and Leaseback Agreement"), dated May 22, 2023, with Alcon, wherein the Company sold $10.0 million (subject to certain post-closing adjustments) (the "Purchase Price") of certain equipment, machinery, and other property associated with the production of sodium hyaluronate (the "Equipment") to Alcon. The Equipment Sale Leaseback Agreement contains an option for the Company to repurchase the Equipment upon the earlier of (i) seven (7) years and (ii) the expansion of the Company's existing production capacity with respect to sodium hyaluronate, for a purchase price equal to the Purchase Price, less the aggregate of all Paydown Payments (as defined in the Equipment Lease Agreement).

Concurrently with the entry into the Equipment Sale and Leaseback Agreement, the Company entered into that certain Equipment Lease Agreement (the "Equipment Lease Agreement" and, together with the Equipment Sale Leaseback Agreement, the New Term Loan Credit Facility, the Term Loan Security Agreement, and the Revolving Loan Amendment, collectively, the "Refinancing Transactions"), dated May 22, 2023, with Alcon, wherein Alcon leased the Equipment back to the Company. The Equipment Lease Agreement expires upon the earlier of (i) May 22, 2033, and (ii) the date that the Equipment is repurchased by the Company pursuant to the terms of the Equipment Lease Agreement. Upon the expiration of the Equipment Lease Agreement on May 22, 2033, the Company shall automatically repurchase the Equipment for $1.00 (if not previously repurchased pursuant to the option under the Equipment Sale and Leaseback Agreement).

During the lease term, the Company is obligated to make quarterly rental payments to Alcon equal to (i) 1/40th of the Purchase Price (the "Paydown Payments"), plus (ii) 1.5% times the Purchase Price less cumulative Paydown Payments made.

The Equipment Lease Agreement contains terms and provisions (including representations, covenants and conditions) that are generally customary for a commercial lease of this nature, including obligations relating to the use, operation and maintenance of the Equipment. During the term of the lease, Alcon is not permitted to sell or encumber the Equipment. Alcon is only entitled to cancel the Equipment Lease Agreement in the event of insolvency, liquidation or bankruptcy, and its remedies for other breaches of the Equipment Lease Agreement are otherwise limited to monetary damages.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company is not a party to any agreements with, or commitments to, any special purpose entities that would constitute material off-balance sheet financing. There have been no material changes to our long-term contractual obligations as reported in our most recent Annual Report filed on Form 10-K/A for the fiscal year ended May 29, 2022. See Note 6 – Debt for further information on the Company's loans.

Going Concern

Please see "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — Going Concern" above for discussion on our ability to continue as a going concern, as of the Filing Date.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

There have been no material changes to the information provided under Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" which is included and described in the Form 10-K/A for the fiscal year ended May 29, 2022 filed with the SEC on March 16, 2023.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (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 Quarterly Report on Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the 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 have concluded that our disclosure controls and procedures were not effective as of February 26, 2023, due to the material weaknesses in internal control over financial reporting that were disclosed in our Annual Report on Form 10-K/A for the fiscal year ended May 29, 2022.

Previously Disclosed Material Weakness in Internal Control over Financial Reporting

As previously disclosed in Item 9A of our Annual Report on Form 10-K/A for the year ended May 29, 2022, management identified material weaknesses as of such date. The first identified material weakness was that we did not design and operate effective internal controls over the assessment of recoverability and measurement of fair value of certain indefinite-lived and long-lived assets. This resulted in a material error for the fiscal year ended May 29, 2022, that was corrected in the Annual Report on Form 10-K/A for the year ended May 29, 2022, and for the first quarter ended August 28, 2022, was corrected in the Quarterly Report on Form 10-Q/A for the quarter ended August 28, 2022, with the impacted financial information corrected in Note 1 - Correction of Error in Previously Reported Interim Financial Statements (Unaudited) to our consolidated financial statements included in Part I, Item 1 of the Quarterly Report on Form 10-Q/A. The second identified material weakness was that we did not design and operate effective internal controls over the completeness and accuracy of the accounting for non-standard transactions, which 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. These two material weaknesses remain unremediated.

In response to the material weaknesses described above, with the oversight of the Audit Committee of our Board of Directors, management has corrected the errors in its annual and interim financial statements. Management is currently evaluating remediation activities related to our processes for assessing recoverability and measurement of fair value of certain indefinite-lived and long-lived assets that will include, but are not limited to the following (i) developing a more comprehensive review over the periodic assessment of recoverability of indefinite-lived and long-lived assets; and (ii) enhancing and developing a more comprehensive review process and monitoring controls related to the measurement of fair values of indefinite-lived and long-lived assets. In addition, 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, which are ongoing, are intended to both address the identified material weaknesses 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.

Changes in Internal Control over Financial Reporting

The change described under “Previously Disclosed Material Weakness in Internal Control over Financial Reporting” above represents a change in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) under the Exchange Act) during the nine months ended February 26, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. There were no other changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Company is involved in various legal proceedings and claims. For further discussion, see the disclosures contained in Note 1 - Organization, Basis of Presentation, and Summary of Significant Accounting Policies - Legal Contingencies, which are incorporated herein by reference.

Item 1A. Risk Factors

You should carefully consider the risks described below and in Item 1A, Risk Factors, of our Annual Report on Form 10-K/A for the fiscal year ended May 29, 2022, as supplemented by the Quarterly Report on Form 10-Q for the fiscal periods ended November 27, 2022, as our business, financial condition and results of operations could be adversely affected by any of the risks and uncertainties described therein and herein. Some statements in this report, including statements in the risk factors, constitute forward-looking statements. Except as described below, there have been no material changes to our risk factors as previously disclosed in our Annual Report on Form 10-K/A for the fiscal year ended May 29, 2022, as supplemented by this Quarterly Report on Form 10-Q for the fiscal period ended November 27, 2022 and this Quarterly Report. *We have previously determined that there was substantial doubt as the Company's ability to continue as a going concern, and the factors that raised such substantial doubt may again occur in the future.*

As disclosed in the Company's previous filings, the Company had previously determined that there were factors that raised substantial doubt about its ability to continue as a going concern. Since that time, the Company has taken measures to strengthen its financial position, which have caused management to determinate that the Company has sufficient capital to meet its capital and liquidity requirements for the next 12 months and thus no longer have substantial doubt as to the Company's ability to operate as a going concern, as described under "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources". However, there can be no assurance that the factors that raised such substantial doubt in the past will not occur again in the future, including failing to comply with the covenants under our existing credit facilities or a decline in our liquidity, nor that other factors may not cause us to make a similar determination in the future. If management were to conclude that there was substantial doubt as to the Company's ability to continue as a going concern in the future, we and our financial condition could be adversely impacted, including reputational harm, potential violations of our Credit Facilities, decreases in the value of our common stock or investor confidence, among others.

The Company may be adversely impacted by the terms of its refinancing transactions with Alcon and by Alcon's concentrated relationship with the Company as a significant customer of and lender to the Company.

As described under "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources," the Company entered into Refinancing Transactions with Alcon, a significant customer of the Company, on May 22, 2023, pursuant to which Alcon agreed to become the Company's lender under the New Term Loan Credit Facility. On May 3, 2023, the Company also entered into the Alcon Supply Agreement with Alcon, which amended and restated certain existing supply agreements entered into between the Company and Alcon related to the Company's manufacture and supply of sodium hyaluronate ("HA") for Alcon, which significantly expanded the anticipated commercial relationship between the Company and Alcon. As a result of these transactions, the Company may be subject to risks related to the nature and significance of this relationship. For example, given the increased scope of the customer relationship and the relative increased customer concentration, the Company's revenues and operational results may become more reliant on the success and health of that relationship, including on Alcon's continued ability and desire to use the Company for the manufacture and supply of HA, and give them greater influence over the Company's operations generally. Additionally, Alcon has not traditionally acted as a lender, and, as a result, the Company may be subject to risks related to the unique nature of the relationship between the Company and Alcon, including the fact that Alcon may not have the same motivations, incentives and practices as a traditional lender. For example, pursuant to the terms of the New Term Loan Credit Facility, the Company's material uncured violation of the Alcon Supply Agreement constitutes an event of default under the New Term Loan Credit Facility, which puts significant pressure on the Company to comply with the terms of the Alcon Supply Agreement, and that failure to do so may cause the Company's obligations under the New Term Loan Credit Facility to be accelerated and trigger other remedies Alcon may be entitled to under the New Term Loan Credit Facility, which could have a material adverse effect on the Company's business, prospects, results of operations, liquidity and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

The information contained in "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — Going Concern" is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Exhibit Title
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.
3.6	Certificate of Amendment to Certificate Incorporation of the Company, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on November 16, 2022.
3.7	Amendment No. 4 to By-Laws of the Company, incorporated herein by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on November 16, 2022.
3.8	Certificate of Designations of Lifecore Biomedical, Inc., dated January 9, 2023, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on January 10, 2023.
10.1	Securities Purchase Agreement, dated January 9, 2023, by and between Lifecore Biomedical, Inc. and the purchasers named therein, incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 10, 2023.
10.2	Registration Rights Agreement, dated January 10, 2023, by and between Lifecore Biomedical, Inc. and the other parties thereto, incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 10, 2023.
10.3	Term Loan Amendment, dated January 9, 2023, incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on January 10, 2023.
10.4	Revolving Loan Amendment, dated January 9, 2023, incorporated herein by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on January 10, 2023.
10.5	Securities Purchase Agreement, dated February 7, 2023, by and among Lifecore Biomedical, Inc., Yucatan Foods, LLC, Camden Fruit Corp., and Yucatan Acquisition Holdings LLC, incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on February 7, 2023.
10.6	Credit and Guaranty Agreement, dated May 22, 2023, by and among Lifecore Biomedical, Inc., Curation Foods, Inc. and Lifecore Biomedical Operating Company, Inc., as borrowers, certain other subsidiaries of Lifecore Biomedical, Inc. party thereto, as guarantors, and Alcon Research, LLC, as lender, administrative agent and collateral agent, incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 23, 2023.
10.7	Pledge and Security Agreement, dated May 22, 2023, by and among Lifecore Biomedical, Inc., Curation Foods, Inc., Lifecore Biomedical Operating Company, Inc. and certain other subsidiary parties thereto, as grantors, and Alcon Research, LLC, as collateral agent, incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on May 23, 2023.

10.8	Limited Waiver and Fifth Amendment to that certain Credit Agreement, dated December 31, 2020, by and among Lifecore Biomedical, Inc., Curation Foods, Inc. and Lifecore Biomedical Operating Company, Inc., as borrowers, certain other subsidiaries of Lifecore Biomedical, Inc. party thereto, as guarantors, and BMO Harris Bank, N.A., as lender and administrative agent, incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on May 23, 2023.
10.9	Equipment Sale and Leaseback Agreement, dated May 22, 2023, by and between Lifecore Biomedical, Inc. and Alcon Research, LLC, incorporated herein by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on May 23, 2023.
10.10	Equipment Lease Agreement, dated May 22, 2023, by and between Lifecore Biomedical, Inc. and Alcon Research, LLC, incorporated herein by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on May 23, 2023.
10.11	Amended and Restated Supply Agreement, dated May 3, 2023, by and between Lifecore Biomedical, Inc. and Alcon Research, LLC, incorporated herein by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed on May 23, 2023.
31.1+	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer 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
*	The schedules and other attachments to this exhibit have been omitted. The Company agrees to furnish a copy of any omitted schedules or attachments to the SEC upon request.
**	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 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.

LIFECORE BIOMEDICAL, INC.

By: /s/ John D. Morberg
John D. Morberg
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: June 2, 2023

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, James G. Hall, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lifecore Biomedical, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 2, 2023

/s/ James G. Hall
James G. Hall
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, John D. Morberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lifecore Biomedical, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 2, 2023

/s/ John D. Morberg
John D. Morberg
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lifecore Biomedical, Inc. (the “Company”) on Form 10-Q for the period ended February 26, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James G. Hall, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 2, 2023

/s/ James G. Hall
James G. Hall
President and Chief Executive Officer
(Principal Executive Officer)

* The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lifecore Biomedical, Inc. (the “Company”) on Form 10-Q for the period ended February 26, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John D. Morberg, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 2, 2023

/s/ John D. Morberg
John D. Morberg
Chief Financial Officer
(Principal Financial Officer)

* The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.