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 November 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 August 5, 2024, there were 30,869,738 shares of common stock outstanding.

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

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

	November 26, 2023	May 28, 2023
	(unaudited)	
ASSETS		
Current Assets:		
Cash	$ 3,221	$ 19,091
Accounts receivable, less allowance for credit losses	19,431	19,907
Accounts receivable, related party	10,771	9,117
Inventories, net	41,446	40,841
Prepaid expenses and other current assets	1,845	4,919
Total Current Assets	76,714	93,875
Property and equipment, net	142,913	134,390
Operating lease right-of-use assets	4,036	4,282
Goodwill	13,881	13,881
Intangible assets	4,200	4,200
Other long-term assets	4,072	2,917
Total Assets	$ 245,816	$ 253,545
LIABILITIES, CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS’ DEFICIT		
Current Liabilities:		
Accounts payable	$ 19,023	$ 22,097
Accrued compensation	3,354	4,145
Other accrued liabilities	7,657	7,142
Current portion of lease liabilities	1,193	1,270
Deferred revenues	973	552
Deferred revenues, related party	7,281	3,503
Current portion of long-term debt, net, related party	773	580
Total Current Liabilities	40,254	39,289
Long-term debt, less current portion, net, related party	92,085	84,256
Revolving credit facility	16,878	16,809
Debt derivative liability, related party	44,000	64,900
Long-term lease liabilities, less current portion	9,334	9,709
Deferred taxes, net	416	380
Deferred revenues, less current portion, related party	321	2,940
Other non-current liabilities	183	174
Total Liabilities	203,471	218,457
Commitments and Contingencies, see Note 1		
Convertible Preferred Stock, $0.001 par value; 2,000 shares authorized; 41 and 39 shares issued and outstanding at November 26, 2023 and May 28, 2023, respectively	40,924	39,318
Stockholders’ Deficit:		
Common Stock, $0.001 par value; 50,000 shares authorized; 30,459 and 30,322 shares issued and outstanding at November 26, 2023 and May 28, 2023, respectively	30	30
Additional paid-in capital	176,463	174,276
Accumulated deficit	(175,072)	(178,536)
Total Stockholders’ Deficit	1,421	(4,230)
Total Liabilities, Convertible Preferred Stock, and Stockholders’ Deficit	$ 245,816	$ 253,545

See accompanying notes to the condensed consolidated financial statements.

LIFECORE BIOMEDICAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	November 26, 2023	November 27, 2022	November 26, 2023	November 27, 2022
Revenues	$ 20,522	$ 21,864	$ 37,475	$ 45,587
Revenues, related party	9,628	—	17,197	—
Total Revenues	30,150	21,864	54,672	45,587
Cost of goods sold	20,193	16,185	41,987	33,929
Gross profit	9,957	5,679	12,685	11,658
Operating costs and expenses:				
Research and development	2,098	2,177	4,244	4,388
Selling, general and administrative	9,185	8,291	18,391	16,395
Gain on sale of divested business	—	—	—	(2,108)
Restructuring costs	157	563	147	1,610
Total operating costs and expenses	11,440	11,031	22,782	20,285
Operating loss	(1,483)	(5,352)	(10,097)	(8,627)
Interest expense, net	(832)	(3,608)	(1,625)	(6,839)
Interest expense, related party	(3,241)	—	(6,385)	—
Change in fair value of debt derivative liability, related party	20,700	—	20,900	—
Other income (expense), net	(967)	(237)	(1,138)	(434)
Net income (loss) from continuing operations before income taxes	14,177	(9,197)	1,655	(15,900)
Provision for income tax benefit (expense)	65	(4)	(23)	(8)
Net income (loss) from continuing operations	14,242	(9,201)	1,632	(15,908)
Discontinued operations:				
Income (loss) from discontinued operations	$ —	$ (3,605)	$ 1,850	$ (7,864)
Income tax (expense) benefit	(24)	—	(18)	—
Income (loss) from discontinued operations, net of tax	(24)	(3,605)	1,832	(7,864)
Net income (loss)	$ 14,218	$ (12,806)	$ 3,464	$ (23,772)
Basic net income (loss) per share:				
Income (loss) from continuing operations	$ 0.47	$ (0.31)	$ 0.05	$ (0.54)
Income (loss) from discontinued operations	—	(0.12)	0.06	(0.26)
Total basic net income (loss) per share	$ 0.47	$ (0.43)	$ 0.11	$ (0.80)
Diluted net income (loss) per share:				
Income (loss) from continuing operations	$ 0.39	$ (0.31)	$ 0.05	$ (0.54)
Income (loss) from discontinued operations	—	(0.12)	0.05	(0.26)
Total diluted net income (loss) per share	$ 0.39	$ (0.43)	$ 0.10	$ (0.80)
Shares used in per share computation:				
Basic	30,458	29,634	30,431	29,605
Diluted	36,419	29,634	36,398	29,605
Other comprehensive income (loss), net of tax:				
Net income (loss)	$ 14,218	$ (12,806)	$ 3,464	$ (23,772)
Net unrealized gain on interest rate swaps (net of tax effect of $16)	—	286	—	586
Total comprehensive income (loss)	$ 14,218	$ (12,520)	$ 3,464	$ (23,186)

See accompanying notes to the condensed consolidated financial statements.

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

Three and Six Months Ended November 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 28, 2023	39	$ 39,318	30,322	$ 30	$ 174,276	$ (178,536)	$ —	$ (4,230)
Issuance of stock under stock plans, net of shares withheld	—	—	134	—	724	—	—	724
Convertible Preferred Stock paid-in-kind ("PIK") dividend	1	748	—	—	(748)	—	—	(748)
Accretion of Convertible Preferred Stock	—	48	—	—	(48)	—		(48)
Taxes paid by Company for employee stock plans	—	—	—	—	(45)	—	—	(45)
Stock-based compensation	—	—	—	—	1,541	—	—	1,541
Net loss	—	—	—	—	—	(10,754)	—	(10,754)
Balance at August 27, 2023	40	$ 40,114	30,456	$ 30	$ 175,700	$ (189,290)	$ —	$ (13,560)
Issuance of stock under stock plans, net of shares withheld	—	—	3	—	—	—	—	—
Convertible Preferred Stock PIK dividend	1	763	—	—	(763)	—	—	(763)
Accretion of Convertible Preferred Stock	—	47			(47)			(47)
Taxes paid by Company for employee stock plans	—	—	—	—	(12)	—		(12)
Stock-based compensation	—	—	—	—	1,585	—		1,585
Net income	—	—	—	—	—	14,218		14,218
Balance at November 26, 2023	41	$ 40,924	30,459	$ 30	$ 176,463	$ (175,072)	$ —	$ 1,421

Three and Six Months Ended November 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 29, 2022	—	—	29,513	30	167,352	(78,973)	(586)	87,823
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	—	—	—	—	—	(10,966)	—	(10,966)
Other comprehensive income, net of tax	—	—	—	—	—	—	300	300
Balance at August 28, 2022	—	$ —	29,593	$ 30	$ 168,070	$ (89,939)	$ (286)	$ 77,875
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	—	—	—	—	—	(12,806)	—	(12,806)
Other comprehensive income, net of tax	—	—	—	—	—	—	286	286
Issuance of shares to common stock	—	—	628	—	4,822	—	—	4,822
Balance at November 27, 2022	—	$ —	30,297	$ 30	$ 173,858	$ (102,745)	$ —	$ 71,143

See accompanying notes to the condensed consolidated financial statements.

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

	Six Months Ended	
	November 26, 2023	November 27, 2022
Cash flows from operating activities:		
Net income (loss)	$ 3,464	$ (23,772)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Impairment of indefinite-lived intangible assets and goodwill	—	1,300
Depreciation and amortization	4,374	7,294
Stock-based compensation expense	3,110	1,893
Deferred taxes	36	(13)
Interest expense PIK, related party	6,152	—
Change in debt derivative liability, related party	(20,900)	—
Provision for expected credit losses	37	—
Net gain on disposal of property and equipment held and used	19	22
Gain on sale of divested business	—	(2,108)
Other, net	—	86
Changes in current assets and current liabilities:		
Accounts receivable	5,649	12,483
Accounts receivable, related party	(6,861)	—
Inventories	(605)	(9,576)
Prepaid expenses, other current assets, and other assets	1,741	(725)
Accounts payable	(4,261)	11,709
Accrued compensation	(791)	(4,636)
Other accrued liabilities	(2,686)	2,777
Deferred revenues	421	(188)
Deferred revenues, related party	3,778	—
Net cash used in operating activities	(7,323)	(3,454)
Cash flows from investing activities:		
Purchases of property and equipment	(9,033)	(7,209)
Proceeds from the sale of divested business, net of cash acquired	—	3,135
Net cash used in investing activities	(9,033)	(4,074)
Cash flows from financing activities:		
Proceeds from issuance of common stock	724	5,000
Payments on long-term debt	(193)	(76)
Proceeds from revolving credit facility, net	69	8,000
Principal payments on finance leases	(57)	—
Taxes paid by Company for employee stock plans	(57)	(209)
Net cash provided by financing activities	486	12,715
Net (decrease) increase in cash	(15,870)	5,187
Cash, beginning of period	19,091	1,643
Cash, end of period	$ 3,221	$ 6,830
Supplemental disclosure of non-cash investing and financing activities:		
Purchases of property and equipment in accounts payable	$ 8,132	$ 2,700
Capitalized interest expense	$ 2,063	$ 676
Convertible Preferred Stock PIK dividend	$ 1,511	$ —

See accompanying notes to the condensed consolidated financial statements.

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

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

Organization

Lifecore Biomedical, Inc. and its subsidiaries ("Lifecore" or the "Company") is a fully integrated contract development and manufacturing organization ("CDMO") that offers capabilities in the development, fill and finish of complex sterile injectable pharmaceutical products in syringes and vials. The Company previously operated a natural food company, through its wholly-owned subsidiary, Curation Foods, Inc. ("Curation"), which was previously focused on the distribution of plant-based foods to retail, club, and food service channels throughout North America. However, upon the sale of the Divested Businesses (as defined below), the Company has ceased to operate the Curation foods business.

Discontinued Operations

During the year ended May 28, 2023, the Company entered into agreements for the sale or disposition of its subsidiaries within the Curation business (a former segment), specifically O Olive Oil and Vinegar® ("O Olive"), Yucatan Foods, LLC ("Yucatan"), and BreatheWay® ("BreatheWay", and together with O Olive, Yucatan, and BreatheWay, the "Divested Businesses"). The Company completed the disposition of Yucatan and O Olive on February 7, 2023 and April 6, 2023, respectively.

On June 2, 2022, the Company and Curation entered into and closed an Asset Purchase Agreement (the "BreatheWay Purchase Agreement") with Hazel Technologies, Inc. (the "BreatheWay Purchaser"), pursuant to which Curation sold all of its assets related to BreatheWay packaging technology business to the BreatheWay Purchaser in exchange for an aggregate purchase price of $3.2 million (the "BreatheWay Disposition"). The BreatheWay Purchase Agreement included various representations, warranties, and covenants of the parties generally customary for a transaction of this nature. In connection with the BreatheWay Disposition, the Company received net proceeds of $3.1 million and recorded a gain of $2.1 million in the Condensed Consolidated Statements of Operations for the three and six months ended November 26, 2023.

The accounting requirements for reporting the Divested Businesses, excluding BreatheWay, as discontinued operations were met on the closing date of each of the divestitures. The BreatheWay Disposition met the requirements for reporting the businesses as assets held for sale in the fourth quarter of fiscal year 2022. Accordingly, the unaudited condensed consolidated financial statements and related condensed notes reflect the results of the Divested Businesses, as discontinued operations for the periods presented. Refer to Note 8 – Discontinued Operations.

Basis of Presentation

The accompanying Condensed Consolidated Balance Sheet as of May 28, 2023, which has been derived from audited financial statements, and the accompanying unaudited condensed consolidated financial statements of the Company 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 November 26, 2023, and the results of operations and cash flows for all periods presented. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared following GAAP have been condensed or omitted per 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 the Company's Annual Report on Form 10-K for the fiscal year ended May 28, 2023 (the "2023 Annual Report"). The Company restated its unaudited quarterly financial statements as of and for the three and six months ended November 27, 2022 (the "Restatement"). Such restated and unaudited quarterly financial statements and related impacted amounts were presented in the Company's Annual Report on Form 10-K for the year ended May 28, 2023. The discussion of financial results presented in this quarterly report on Form 10-Q reflects such restated amounts.

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 reported in these interim condensed consolidated financial statements are not necessarily indicative of the results that may be reported for the entire year.

As result of the Company exiting all previous food related business as part of the strategic shift in the Company's operations that was completed as of May 28, 2023, commencing with this Quarterly Report on Form 10-Q, the Company changed its presentation of "Product sales" and "Cost of product sales" to "Revenues" and "Cost of goods sold", respectively.

Basis of Consolidation

The condensed consolidated financial statements are presented on the accrual basis of accounting in accordance with GAAP and include the accounts of the Company and its subsidiaries. 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; 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; the valuation and recognition of stock-based compensation, and the valuation of the debt derivative liability.

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

Concentrations of Risk

Cash and cash equivalents and trade accounts receivable are financial instruments that potentially subject the Company to concentrations of credit risk. Our Company policy limits, among other things, the amount of credit exposure to any one issuer and to any one type of investment, other than securities issued or guaranteed by the U.S. government. The Company maintains cash in U.S. bank accounts, the balance of which may at times exceed the federally insured limit.

During the three months ended November 26, 2023 and November 27, 2022, the Company had sales concentrations of 10% or greater from three customers, accounting for 32%, 22%, and 22%, and 38%, 18%, and 12% respectively.

During the six months ended November 26, 2023 and November 27, 2022, the Company had sales concentrations of 10% or greater from three customers, accounting for 31%, 22%, and 14%, and 34%, 18%, and 11% respectively.

Three of the Company's same customers had accounts receivable concentrations of 10% or greater, accounting for 35%, 17%, and 13% of accounts receivable as of November 26, 2023. Two of the Company's same customers had accounts receivable concentrations of 10% or greater, accounting for 31% and 18% of accounts receivable as of as of May 28, 2023.

Contract Assets and Liabilities

Contract assets primarily relate to the Company's unconditional right to consideration for work completed but not billed at the reporting date. The Company's contract assets as of November 26, 2023, May 28, 2023 and May 29, 2022, were $2.9 million, $3.2 million and $10.4 million, respectively, and are included within total accounts receivable in the Condensed Consolidated Balance Sheets.

Contract liabilities primarily relate to payments received from customers in advance of performance under a contract. The Company's contract liabilities as of November 26, 2023, May 28, 2023 and May 29, 2022, were $8.6 million, $7.0 million and $0.9 million, respectively, of which $8.3 million and $4.1 million are included in total deferred revenue and $0.3 million and $2.9 million are included in non-current liabilities as of November 26, 2023 and May 28, 2023, respectively, in the Condensed Consolidated Balance Sheets. Revenue recognized during the three and six months ended November 26, 2023, that was included in the contract liability balance at the beginning of fiscal year 2024, was $1.7 million and $3.7 million, respectively.

Revenue recognized during the three and six months ended November 27, 2022, that was included in the contract liability balance at the beginning of fiscal year 2023, was $0.1 million and $0.4 million, respectively.

Revenue Recognition

The following tables disaggregates revenue by major product lines and services (in thousands):

	Three Months Ended		Six Months Ended	
(In thousands)	November 26, 2023	November 27, 2022	November 26, 2023	November 27, 2022
Contact development and manufacturing organization	$ 23,678	$ 16,205	$ 45,217	$ 34,473
HA manufacturing	6,472	5,659	9,455	11,114
Total	$ 30,150	$ 21,864	$ 54,672	$ 45,587

Development services revenues recognized over time were $5.8 million and $6.3 million for the three months ended November 26, 2023 and November 27, 2022, respectively, and $12.2 million and $13.3 million for the six months ended November 26, 2023 and November 27, 2022, respectively, and are included in contract development and manufacturing organization.

Revenues recognized at a point in time were $24.3 million and $15.6 million for the three months ended November 26, 2023 and November 27, 2022, respectively, and $42.5 million and $32.3 million for the six months ended November 26, 2023 and November 27, 2022, respectively.

The Company identified certain elements of its agreements with customers for development services in which the Company is the principal in those contracts, therefore it recognizes revenues on a gross basis. For other contracts in which the Company operates as an agent, the Company recognized revenue on a net basis.

Inventories, net

Inventories primarily consist of in-process and finished goods related to sterile injectable pharmaceutical products in syringes, vials and cartridges. This includes premium, pharmaceutical grade HA in bulk form as well as formulated and filled syringes, vials and cartridges for injectable products used in treating a broad spectrum of medical conditions and procedures.

As of November 26, 2023 and May 28, 2023, inventories consisted of the following (in thousands):

(In thousands)	November 26, 2023	May 28, 2023
Finished goods	$ 16,559	$ 13,1
Raw materials	17,065	17,7
Work in process	8,703	10,3
Inventory reserve	(881)	(38
Total	$ 41,446	$ 40,8

The Company recorded adjustments of $3.1 million and $4.9 million to record inventory to its net realizable value as of November 26, 2023 and May 28, 2023, respectively.

The Company's inventory serves as part of the collateral for certain of the Company's debt arrangements. Refer to Note 6 – Debt for additional discussion on the Company's debt arrangements and related collateral.

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 not elected the fair value option for any of its other eligible financial assets or liabilities.

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

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

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

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

Cash is stated at cost, which approximates its fair value. The carrying amounts reported in the balance sheets for accounts receivable, accounts payable and accrued liabilities approximate fair value, due to their short-term maturities.

Outstanding borrowings that qualify as financial instruments are carried at cost, which approximates their fair value as of November 26, 2023 and May 28, 2023, due to their short duration, except for the Alcon Research, LLC ("Alcon") term debt with a fair value of $131.0 million that exceeds carrying value.

The Term Loan Credit Facility (as defined in Note 6 – Debt) contains embedded derivatives requiring bifurcation as a derivative instrument. The derivative liability related to the Term Loan Credit Facility is recorded as a discount to the long-term debt in the Condensed Consolidated Financial Statements. The embedded derivative liability is subject to remeasurement at the end of each reporting period, with changes in fair value recognized as a non-operating income (expense). The fair value of the embedded derivative liabilities associated with the Term Loan Credit Facility was estimated using a probability weighted discounted cash flow model to measure the fair value. This involves significant Level 3 inputs and assumptions including (i) an estimated probability and timing of a change in control and event of default, and (ii) a risk-adjusted discount rate. At November 26, 2023 and May 28, 2023, the fair value of the embedded derivative liability approximated $44.0 million and $64.9 million, respectively.

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

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

	Fair Value at November 26, 2023			Fair Value at May 28, 2023		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Liabilities:						
Debt derivative liability[1]	—	—	44,000	—	—	64,900
Total liabilities	—	—	44,000	—	—	64,900

[1] As of November 26, 2023 and May 28, 2023, the fair value of the debt derivative liability is included in non-current liabilities in the Company's Condensed Consolidated Balance Sheets.

The key inputs to the valuation models that were utilized to estimate the fair value of the debt derivative liability were (i) an estimated probability related to the timing of a change in control over the 12 months following the end of the fiscal period; (ii) the estimated probability related to an event of default of the supply agreement with Alcon, as amended, over the 12 months following the end of the fiscal period; and (iii) a risk-adjusted discount rate. Beginning in the second quarter of fiscal year 2024, there was a decline in the change in control probability assumption in connection with the Company's review of the strategic alternatives initiative that significantly impacted the fair value of the debt derivative liability. There was no change in the probability related to event of default of the Supply Agreement during fiscal year 2024.

The risk adjusted discount rate as of November 26, 2023 and May 28, 2023, were as follows:

	November 26, 2023	May 28, 2023
Assumptions		
Discount rate	22.2% — 24.2%	22.3% — 24.5%
Implied spread	17.7%	18.5%
Risk free rate	4.5% — 6.5%	3.8% — 6.0%

The following table reflects the fair value roll forward reconciliation of Level 3 assets and liabilities measured at fair value for the six months ended November 26, 2023 (in thousands):

	Debt Derivative Liability
Balance as of May 29, 2022	$ —
Fair value on issuance[(1)]	64,900
Balance as of May 28, 2023	64,900
Decrease in fair value[(2)]	(20,900)
Balance as of November 26, 2023	44,000

(1) At May 28, 2023, the fair value of the embedded derivative liability approximated the fair value upon issuance on May 22, 2023.
(2) For the six months ended November 26, 2023, the decrease in fair value is recorded within "Change in fair value of debt derivative liability, related party" within the condensed consolidated statement of operations.

Related Party Transactions

The Company has reflected the related party balances on the face of its financial statements beginning in the period which Alcon became a related party, which was as of May 22, 2023 at the time Alcon provided financing to the Company. Prior to providing financing, and continuing subsequently, Alcon was a customer of the Company. Refer to Note 6 – Debt for additional discussion on the Company's debt agreement with Alcon.

Commitments and Contingencies

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.

Confidential Settlement Agreement and Release

On August 24, 2023, the Company reached a confidential settlement and release agreement with a third-party insurance underwriter. In connection with this settlement agreement, the Company received a cash payment of $1.9 million on September 19, 2023.

SEC Subpoena

On February 16, 2024, the Chicago Regional Office of the SEC has issued a subpoena to the Company seeking documents and information concerning the Restatement. The Company is in the process of responding to the subpoena and intends to cooperate with the SEC. We cannot predict the duration or outcome of this matter at this time.

Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board issued new guidance on income tax disclosures (ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures"). Among other requirements, this update adds specific disclosure requirements for income taxes, including: (1) disclosing specific categories in the rate reconciliation and (2) providing additional information for reconciling items that meet quantitative thresholds. The guidance is effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of evaluating the impact of the adoption of ASU 2023-09 on the Company's condensed consolidated financial statements and disclosures.

In November 2023, the FASB issued new guidance on segment reporting (ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures"). The amendments in the ASU are intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. The guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is in the process of evaluating the impact of the adoption of ASU 2023-07 on the Company's condensed consolidated financial statements and disclosures.

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 (each, a "Holder" and collectively, the "Holders"), subject to the exchange and beneficial ownership limitations described below. The Company recorded the Convertible Preferred Stock net of issuance costs of $0.7 million.

Liquidation and Redemption

As of November 26, 2023 and May 28, 2023, the aggregate liquidation preference of the Convertible Preferred Stock approximated $40.9 million and $39.3 million, respectively.

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 the conversion of the Convertible Preferred Stock. The Registration Rights Agreement contains monetary penalties if the Company fails to maintain the effectiveness of the registration statement. As of the November 26, 2023, the Company has accrued approximately $1.3 million in monetary penalties under the Registration Rights Agreement due to the delinquent filing of the Company's annual and quarterly reports with the SEC.

Classification

The Convertible Preferred Stock is redeemable by the holders after June 29, 2026. Until such date, it is redeemable contingent upon the occurrence of certain events. As a result, 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. The current carrying value approximates fair value as it reflects the accumulation of the PIK dividends and accretion of the issue costs.

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. The discount to the proceeds arising from issuance costs is being amortized up to its full redemption value through June 29, 2026.

During the six months ended November 26, 2023, the Company recorded paid in-kind dividends of approximately $0.8 million as a reduction to Additional Paid-in Capital and an increased to the Convertible Preferred Stock balance. As of November 26, 2023 and May 28, 2023, there were approximately 40,912 shares and 39,420 shares, respectively, of Convertible Preferred Stock outstanding.

3. Stock-based Compensation and Stockholders' Equity

Stock-Based Compensation Activity

A summary of the activity under the Company's stock option plans as of November 26, 2023 and changes during the fiscal year then ended is presented below:

	Options Outstanding		Weighted-Average Exercise Price Per Share		Total Intrinsic Value of Options Exercised (in thousands)	Weighted-Average Remaining Contractual Term (in Years)		Aggregate Intrinsic Value
Options outstanding at May 28, 2023	2,374,325	$	10.88					
Options granted	2,100	$	10.48					
Options exercised	(95,800)	$	9.38	$	115			
Options forfeited	—	$	—					
Options expired	(119,850)	$	11.79					
Options outstanding at November 26, 2023	2,160,775	$	10.89			3.90	$	—
Options exercisable at November 26, 2023	1,608,580	$	10.95			3.36	$	—

A summary of the Company's restricted stock unit ("RSU") award activity as of November 26, 2023 and changes during the fiscal year then ended is presented below:

	Restricted Stock Units Outstanding		Weighted-Average Grant Date Fair Value Per Share
Restricted stock units outstanding at May 28, 2023	336,791	$	9.70
Granted	1,057,656	$	8.25
Vested	(61,344)	$	9.41
Forfeited	—	$	—
Restricted stock units outstanding at November 26, 2023	1,333,103	$	8.56

Stock-Based Compensation Expense

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

	Three Months Ended				Six months ended			
(In thousands)	November 26, 2023		November 27, 2022		November 26, 2023		November 27, 2022	
Continuing operations:								
Cost of product sales	$	178	$	97		362	$	198
Research and development		42		52		84		141
Selling, general and administrative		1,358		963		2,664		1,557
Total stock-based compensation	$	1,578	$	1,112	$	3,110	$	1,896

As of November 26, 2023, there was $11.4 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 1.39 years for stock options and 2.00 years for RSUs.

4. Earnings Per Share

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

	Three Months Ended		Six Months Ended	
(In thousands, except per share amounts)	November 26, 2023	November 27, 2022	November 26, 2023	November 27, 2022
Numerator:				
Net income (loss) from continuing operations	$ 14,242	$ (9,201)	$ 1,632	$ (15,908)
Net income (loss) from discontinued operations, net of tax	(24)	(3,605)	1,832	(7,864)
Net income (loss)	$ 14,218	$ (12,806)	$ 3,464	$ (23,772)
Denominator:				
Weighted average shares for basic income (loss) per share	30,458	29,634	30,431	29,605
Potential preferred stock conversion to common stock	5,791	—	5,738	—
Dilutive stock options and RSUs	170	—	229	—
Weighted average shares for diluted income (loss) per share	36,419	29,634	36,398	29,605
Basic net income (loss) per share:				
Income (loss) from continuing operations	$ 0.47	$ (0.31)	$ 0.05	$ (0.54)
Income (loss) from discontinued operations	—	(0.12)	0.06	(0.26)
Total basic net income (loss) per share	$ 0.47	$ (0.43)	$ 0.11	$ (0.80)
Diluted net income (loss) per share:				
Income (loss) from continuing operations	$ 0.39	$ (0.31)	$ 0.05	$ (0.54)
Income (loss) from discontinued operations	—	(0.12)	0.05	(0.26)
Total diluted net income (loss) per share	$ 0.39	$ (0.43)	$ 0.10	$ (0.80)

Due to the Company's net loss for the three months ended November 27, 2022, the net loss per share includes only the weighted average shares outstanding and thus excludes 150,819 RSUs and 6,557 stock options, as such impact would be antidilutive. All antidilutive items relate to the Company's continuing operations.

Due to the Company's net loss for the six months ended November 27, 2022, the net loss per share includes only the weighted average shares outstanding and thus excludes 134,827 RSUs and 4,367 stock options, as such impact would be antidilutive. All antidilutive items relate to the Company's continuing operations.

See Note 2 – Convertible Preferred Stock for more information on outstanding Convertible Preferred Stock and Note 3 – Stock-based Compensation and Stockholders' Equity more information on outstanding RSUs and stock options.

5. Income Taxes

The provision for income taxes from continuing operations for the three months ended November 26, 2023 and November 27, 2022, was a benefit of $64.9 thousand and an expense of $4.0 thousand, respectively. The provision for income taxes from continuing operations for the six months ended November 26, 2023 and November 27, 2022, was an expense of $23.3 thousand and an expense of $8.0 thousand, respectively.

The effective tax rate for the three months ended November 26, 2023 and November 27, 2022 was 0.46% and 0.03%, respectively. The effective tax rate for the six months ended November 26, 2023 and November 27, 2022 was 1.41% and 0.03%, respectively. The effective tax rate for the three and six months ended November 26, 2023 and November 27, 2022, 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.

6. Debt

Long-term debt, net consists of the following:

(In thousands)	November 26, 2023	May 28, 2023
Term loan, related party	$ 149,735	$ 142,503
Equipment sale finance liability, related party	7,536	7,730
Total principal amount of long-term debt	157,271	150,233
Less: unamortized debt discount	(554)	(605)
Less: debt discount, related party	(63,859)	(64,792)
Total long-term debt, net of discounts	92,858	84,836
Less: current portion of long-term debt, net, related party	(773)	(580)
Long-term debt, net	$ 92,085	$ 84,256

The future minimum principal payments of the Company's term loan and equipment sale finance liability for each year presented are as follows (in thousands), excluding forecasted cash and PIK interest:

Remainder of Fiscal year 2024	$ 387
Fiscal year 2025	773
Fiscal year 2026	773
Fiscal year 2027	773
Fiscal year 2028	773
Thereafter	153,792
Total	$ 157,271

Term Loan Credit Facility

On May 22, 2023, the Company, Curation and Lifecore Biomedical Operating Company, Inc. (together with the Company and Curation, the "Borrowers") and Alcon entered into a Credit and Guaranty Agreement (the "Term Loan Credit Facility"). The Term Loan Credit Facility refinanced in full all obligations of the Company and their subsidiaries under its prior term loan credit facility. Upon entry into the Term Loan Credit Facility, the prior term loan credit facility was terminated and all noncompliance with debt covenants were thereby cured.

The Term Loan Credit Facility provides for up to $142.3 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 Term Loan Credit Facility mature on May 22, 2029. The 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 Company had unamortized debt discount amounting to $64.4 million and $65.4 million as of November 26, 2023 and May 28, 2023, respectively, related to the Term Loan Credit Facility, which are recorded as a reduction of the term loan liability in the Condensed Consolidated Balance Sheets.

The Company identified a number of embedded derivatives that require bifurcation from the Term Loan Credit Facility that were separately accounted for in the condensed consolidated financial statements as one compound derivative liability. Certain of these embedded features include change in control provisions, events of default and contingent rate increases and were determined to qualify as an embedded derivative under ASC 815-40. The embedded derivative is classified as a Level 3 financial liability in the fair value hierarchy as of May 28, 2023. The fair value of the embedded derivative liabilities associated with the term loans was estimated using the discounted cash flow method under the income approach. This involves significant Level 3 inputs and assumptions including an estimated probability and timing of a change in control and events of default. The Company will re-evaluate this assessment each reporting period and records any gains or losses in other income (expense). The initial recognition of the embedded derivative liability upon issuance of the Term Loan Credit Facility on May 22, 2023 was $64.9 million and is recorded as a debt derivative liability, related party in the condensed Consolidated Balance Sheets. The bifurcation of the embedded debt derivative fair value of $64.9 million is accounted for as a discount to the Term Loan Credit Facility. Amortization of the debt discount is based on the effective interest method over the term of the debt. At November 26, 2023 and May 28, 2023, the fair value of the embedded derivative liability approximated $44.0 million and $64.9 million, respectively.

As of November 26, 2023 and May 28, 2023, the Company had $149.7 million and $142.5 million in borrowings outstanding under the Term Loan Credit Facility, at an effective annual interest rate of 10.0% and 10.0%, respectively.

As of November 26, 2023 and May 28, 2023, except for the requirements to deliver certain historical financial statements, the Company was in compliance with all financial covenants under the Term Loan Credit Facility and Revolving Credit Facility (as discussed below). In December 2023, the Company entered into limited waivers and amendments to credit agreements; refer to Note 9 – Subsequent Events for additional information.

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 a 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 Term Loan Credit Facility by granting to Alcon a first priority security interest in certain collateral, including but not limited to equipment, fixtures, real property and intellectual property of the Company. 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 Term Loan Credit Facility.

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 credit agreement with BMO Harris Bank, N.A. (“BMO”), as lender (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 Facility as of the date of the Revolving Loan Amendment, (ii) the reduction of the maximum amount available under the Revolving Credit Facility 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 that the Revolving Credit Facility remains outstanding, and (v) certain other revisions to align with the terms of the Term Loan Credit Facility and address the relative priorities and credit for borrowings related to the Company’s commercial relationships with Alcon.

The Company records its Revolving Credit Facility deferred finance costs as an asset; as such, $1.8 million were recorded as other assets in the accompanying Condensed Consolidated Balance Sheets as of November 26, 2023. As of May 28, 2023, $0.9 million and $1.4 million were recorded as other current assets and other long-term assets, respectively.

As of November 26, 2023 and May 28, 2023, the Company had $16.9 million and $16.8 million, respectively, in borrowings outstanding under the Revolving Credit Facility, at an effective annual interest rate of 10.18% and 12.16%, respectively.

As of November 26, 2023, we had approximately $9.1 million available for borrowing under our 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 an Equipment Sale and Leaseback Agreement (the “Equipment Sale and Leaseback Agreement”), with Alcon, wherein the Company sold $10.0 million (the “Purchase Price”), subject to certain post-closing adjustments 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). The Purchase Price was subsequently reduced to $7.7 million based on the fair value of the Equipment, as required by the terms of the Equipment Sale and Leaseback Agreement. The difference of $2.3 million between the initial sales value of $10.0 million and the $7.7 million was added to the term loan agreement, which resulted in a term loan amount of $142.3 million and the proceeds to Lifecore across the two agreements did not change.

Concurrently with the entry into the Equipment Sale and Leaseback Agreement, the Company entered into an Equipment Lease Agreement (the “Equipment Lease Agreement” and, together with the Equipment Sale Leaseback Agreement, the 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, 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 Company concluded that the Equipment Sale and Leaseback Agreement did not meet the requirements for sale-leaseback accounting, therefore the carrying value of the Equipment remains on the Condensed Consolidated Balance Sheets and the $7.7 million Purchase Price (as adjusted) of the equipment sale finance obligation (the “Equipment Sale Finance Liability”) was classified in Long-term debt, net.

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.

7. Restructuring Costs

The following table summarizes the restructuring costs recognized in the Company’s Condensed Consolidated Statements of Operations, excluding discontinued operations, in connection with the previously announced restructuring plan.

	Three Months Ended		Six Months Ended	
(in thousands)	November 26, 2023	November 27, 2022	November 26, 2023	November 27, 2022
Employee severance and benefit costs	$ 157	$ (113)	$ 139	$ 95
Lease costs	9	25	16	45
Other restructuring costs	(9)	651	(8)	1,470
Total restructuring costs	$ 157	$ 563	$ 147	$ 1,610

The restructuring plan has been substantially completed as of May 28, 2023. The following table summarizes the restructuring costs recognized in the Company’s Condensed Consolidated Statements of Operations since the inception of the restructuring plan in fiscal year 2020 through November 26, 2023, excluding discontinued operations:

(in thousands)	Total
Asset write-off costs, net	$ 13,893
Employee severance and benefit costs	4,238
Lease costs	4,130
Other restructuring costs	7,842
Total restructuring costs	$ 30,103

The following table presents the movement of the restructuring costs liability from May 28, 2023 through November 26, 2023, excluding discontinued operations, within current liabilities in the Condensed Consolidated Balance Sheet:

(in thousands)	May 28, 2023	Expense	Payments	November 26, 2023
Employee severance and benefit costs	$ 1,600	$ 139	$ (1,065)	$ 674
Lease costs	257	16	(129)	144
Other restructuring costs	1,140	(8)	(911)	221
	$ 2,997	$ 147	$ (2,105)	$ 1,039

8. Discontinued Operations

As discussed in Note 1 – Organization, Basis of Presentation, and Summary of Significant Accounting Policies – Discontinued Operations, the Company completed the disposition of Yucatan and O Olive on February 7, 2023 and April 6, 2023, respectively. Yucatan and O Olive represented components of the Company's previously operated food business and their sale represents a strategic shift in the Company going forward. Accordingly, concurrent with the execution of their respective purchase agreements, Yucatan and O Olive both met the accounting requirements for reporting as discontinued operations for all periods presented. There were no assets or liabilities of Yucatan and O Olive as of November 26, 2023.

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

	Three Months Ended		Six Months Ended	
	November 26, 2023	November 27, 2022	November 26, 2023	November 27, 2022
Revenues	$ —	$ 17,111	$ —	$ 36,764
Cost of product sales	—	16,789	—	36,226
Gross profit	—	322	—	538
Operating costs and expenses:			—	
Research and development	—	90	—	169
Selling, general and administrative	—	2,510	—	6,879
Impairment of intangible asset and goodwill	—	1,300	—	1,300
Restructuring costs	—	27	—	54
Total operating costs and expenses	—	3,927	—	8,402
Operating loss	—	(3,605)	—	(7,864)
Other income (expense), net	—	—	1,850	—
Income (loss) from discontinued operations before taxes	—	(3,605)	1,850	(7,864)
Income tax benefit (expense)	(24)	—	(18)	—
Income (loss) from discontinued operations, net of tax	$ (24)	$ (3,605)	$ 1,832	$ (7,864)

Cash provided by operating activities of discontinued operations totaled $1.8 million and $0.3 million for the six months ended November 26, 2023 and November 27, 2022, respectively. Cash used in investing activities from discontinued operations for the six months ended November 27, 2022 was $0.1 million.

9. Subsequent Events

O Olive Sale

On December 11, 2023, and February 22, 2024 the Company received cash payments of $0.3 million, and $18.0 thousand, respectively, toward the $3.1 million seller's note issued to the Company in connection with the disposition of O Olive.

Amended and Restated Supply Agreement

On December 22, 2023, the Company entered into an amendment and restatement of a supply agreement with one of its customers (the "Amended Supply Agreement"). The key provisions of the Amended Supply Agreement included an extension of the agreement's term for certain products through March 31, 2024, revised pricing for certain product purchase orders dated November 1, 2023, and the payment of a $5.0 million working capital deposit to the Company. The working capital deposit was received on December 22, 2023 and (i) may be used for any corporate purpose; (ii) will not accrue interest; and (iii) is required to be repaid, subject to certain defined provisions, upon the termination of the Amended Supply Agreement. On March 14, 2024, this agreement was amended to extend it through December 31, 2026.

Limited Waivers and Amendments to Credit Agreements

On December 31, 2023, the Company entered into (i) a Limited Waiver and First Amendment to Credit and Guaranty Agreement (the "Alcon Amendment"), with Alcon, which amended the Term Loan Credit Facility, and (ii) the Limited Waiver and Sixth Amendment to Credit Agreement (the "BMO Amendment" and, together with the Alcon Amendment, the "Credit Agreement Amendments") which amended the Revolving Credit Facility.

The Alcon Amendment provides for, among other things, (i) a waiver of the specified defaults listed therein under the Term Loan Credit Facility as of the date of the Alcon Amendment, (ii) a waiver of the requirement to deliver certain historical financial statements, (iii) the inclusion of a requirement that the Company notify Alcon in advance of any layoff(s) by the Company and/or its subsidiaries that would result in a reduction in the overall headcount of the Company's full-time manufacturing and support personnel by more than 20 persons in the aggregate, and (iv) an amendment to the financial reporting requirements under the Term Loan Credit Facility providing additional time for the Company's delivery of its financials for the quarter ended November 26, 2023.

The BMO Amendment provides for, among other things, (i) a waiver of the specified defaults listed therein under the Revolving Credit Facility as of the date of the BMO Amendment, (ii) a waiver of the requirement to deliver certain historical financial statements, (iii) an amendment to the definition of "Applicable Margin" with respect to loans under the Revolving Credit Facility from December 31, 2023 until the "Specified Adjustment Date" (as defined in the Revolving Credit Facility as amended by the BMO Amendment) (i.e., the date on which 2024 audited annual financial statements and certain other materials are delivered by the Company to BMO), and (iv) an amendment to the definition of "Eligible Accounts" thereunder in respect of certain accounts.

The Company was not required to pay any fees in connection with the Credit Agreement Amendments.

Amended and Restated Contract Manufacturing Agreement

On December 31, 2023, the Company entered into an Amended and Restated Contract Manufacturing Agreement (the "Amended and Restated CMA"), with Alcon, which amended and restated the existing contract manufacturing agreement between the Company and Alcon related to the Company's aseptic manufacturing of a variety of ophthalmic viscoelastic injection devices.

The initial term of the Amended and Restated CMA expires December 31, 2031, subject to earlier termination by Alcon under certain circumstances or by either party for a material breach by the other party that is not cured after notice and an opportunity to cure.

The Amended and Restated CMA contains terms and provisions customary for transactions of this type, including forecast and purchase order procedures, prices that are subject to annual index-based adjustments, minimum purchase obligations, on-time-in-full service level metrics and remedies, product warranties and confidentiality and indemnification obligations. In the event the Company is unable to meet specified metrics pursuant to the Amended and Restated CMA, under certain circumstances, Alcon will be entitled to certain financial concessions, as well as certain rights and documents with respect to Alcon purchase orders until applicable metrics are met.

On May 2, 2024, the Company entered into an amendment to the Amended and Restated CMA, in which the lender made a prepayment in the amount of $5.5 million in cash as an advance on future purchases. Under the terms, the lender is entitled to apply the prepayment towards invoices issued by the Company within the scope of the agreement during calendar year 2026.

Alcon Supply Agreement Amendment

On December 31, 2023, the Company entered into Amendment No. 1 (the "Supply Agreement Amendment") to the Supply Agreement, related to the Company's manufacture and supply of HA for Alcon.

The Supply Agreement Amendment provides Alcon with the option to purchase a new filter dryer (the "Filter Dryer"), for use by the Company to expand the Company's capacity to produce certain ingredients for Alcon, which may be exercised by Alcon by written notice. If Alcon exercises the option, all associated costs to acquire and install the Filter Dryer at the Company's facilities would be paid in full by Alcon. The Filter Dryer would be deemed the property of Alcon. The Filter Dryer would be solely and exclusively used for the manufacturing of ingredients for Alcon and only to the extent needed to meet Alcon purchase orders in excess of a certain specified committed capacity. After the Filter Dryer is installed, the Company will be committed to a revised specified amount of production capacity to Alcon, and Alcon will commit to purchase a specified percentage of its global annual requirements for certain ingredients from the Company.

Landlord Complaints

On January 12, 2024, the landlord for a property leased by Curation filed a complaint of unlawful detainer against the Company in Santa Barbara County Superior Court, seeking possession of the building and alleging past due rent of approximately $0.2 million. The Company has accrued past due rents, but the ultimate exposure to loss will depend on future events and is not reasonably certain at this time.

On January 12, 2024, a landlord for a different property leased by Curation delivered to the Company a pay or quit notice related to such property, seeking payment of past due rent of approximately $0.1 million or requesting Curation to vacate the property. The Company has accrued past due rents, but the ultimate exposure to loss will depend on future events and is not reasonably certain at this time.

Settlement of a Supplier Note Receivable

In February 2024, the Company received approximately $0.9 million in settlement of a note receivable from a former supplier to a divested business (the "Note"). The Company will account for the settlement as a gain contingency in the third quarter of fiscal year 2024 as the original aggregate amount of the Note was written off in a previous period.

Lender Updates

On May 10, 2024, the Company also entered into the Seventh Amendment to the ABL Loan Agreement with its ABL lender to execute a "first-in, last-out" tranche of revolving loans under the ABL Loan Agreement (the "FILO Amendment"). While not increasing the overall revolver commitment of $40 million, the FILO Amendment provides for up to approximately $2.5 million of incremental revolving loan capacity to the Company, subject to a variable cap, without changing the collateral. In connection with the FILO Amendment, the margin rate applicable to the borrowings pursuant to the FILO Amendment was increased to SOFR plus 4.25%, which is expected to increase annual cash interest expense by approximately $44,000 assuming $2.5 million in FILO tranche borrowings thereunder. The maximum capacity of permitted borrowings pursuant to the FILO Amendment will be reduced on a monthly basis commencing October 1, 2025. The Company paid a fee of $50,000 to BMO in connection with the FILO Amendment.

Assignment for the Benefit of Creditors

On May 15, 2024, the Company, as the sole stockholder of Curation, and Curation, as the sole stockholder of each of Camden Fruit Corp. ("Camden") and Greenline Logistics, Inc. ("Greenline" and, together with Curation and Camden, the "Assignors"), and the board of directors and shareholders of each of the Assignors, determined that it is in the best interests of each of the Assignors and their respective stakeholders, as applicable, to effect a transfer and assignment of substantially all of each of the Assignors assets to SG Service Co., LLC (the "Assignee") for liquidation and distribution to the creditors of each of the Assignors (the "Assignment"). The Assignment will be effectuated pursuant to that certain General Assignment, by and among the Assignors and the Assignee, and related documentation, pursuant to which all of the Assignors' currently existing right, title, and interest in all real or personal property and all other assets, whatsoever and wheresoever situated will be assigned, granted, conveyed and transferred to the Assignee, in trust. The Assignee will then liquidate the assets for the general benefit of the Assignors' respective creditors according to their respective priorities at law to satisfy the Assignors' obligations. Upon the completion of the Assignment, the Assignee will have sole control over the Assignors' assets and the Assignors will no longer control the liquidation or distribution of their assets or the resolution of any creditor claims.

Shareholder Cooperation Agreements

On June 28, 2024, the Company entered into cooperation agreements (the “Cooperation Agreements”) with each of (i) the 22NW Investor Group, (ii) the Legion Investor Group, and (iii) the Wynnefield Investor Group, as defined in the respective Cooperation Agreement. Pursuant to the terms of the Cooperation Agreements, the Company, the 22NW Investor Group, the Legion Investor Group, and the Wynnefield Investor Group agreed to take certain actions with respect to board composition matters and agreed to certain customary standstill provisions.

In connection with the Cooperation Agreements, the Company accrued $0.4 million in expenses during fiscal year 2024 and has estimated to incur an additional $1.5 million in costs during the first quarter of 2025, and which are expected to be paid during the second quarter of 2025.

Reduction in Workforce

On July 8, 2024, the Company determined to implement a strategic reduction of the Company’s workforce (the “Workforce Reduction Plan”) to terminate 46 full-time employees of the Company, representing approximately 9% of the Company’s workforce, as part of an initiative to strategically optimize the Company’s cost structure. In connection with the Workforce Reduction Plan, the Company estimates that it will incur termination benefit costs of approximately $1.0 million, which primarily consist of one-time severance benefits. These costs are expected to be incurred in the first quarter of fiscal 2025 and paid during both the first and second quarters of fiscal 2025.

Class Action Complaint

On July 29, 2024, a putative class action complaint was filed on behalf of shareholders of the Company in the United States District Court of Minnesota against the Company and certain of its named executive officers. The complaint generally alleges that statements made to the Company’s shareholders between October 7, 2020, and March 19, 2024 regarding the Company’s financial results, internal controls, remediation efforts, periodic reporting, and financial prospects were false and misleading in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and that the individual defendants are liable for such statements because they are controlling persons under Section 20(a) of the Exchange Act. The complaint seeks compensatory damages, court costs, and attorneys’ fees. The Company believes that the claims are without merit and intends to vigorously defend against them. Any potential loss arising from this claim is not currently probable or estimable.

Amended Lease Agreement

On August 9, 2024,the Company amended its lease agreement dated September, 3, 2015 with 1245, LLP, as lessor, related to office, manufacturing and warehouse space at 1245 Lakeview Drive in Chaska, MN. The primary terms of the amended lease agreement provide for approximately $2.4 million in cash to the Company in exchange for a revised rent payment schedule and an updated purchase option.

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 condensed consolidated financial statements and accompanying notes included in Part I, Item 1, of this Quarterly Report on 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 the 2023 Annual Report.

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 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, government regulations affecting our business, 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, and those other risks mentioned in this report and the 2023 Annual Report.

We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Accordingly, our actual results could differ materially from those projected in the forward-looking statements for many reasons, including the risk factors listed in Item 1A. "Risk Factors" and in the 2023 Annual Report.

All forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements as well as others made in this report, the 2023 Annual Report, and hereafter in our other SEC filings and public communications.

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

The Company

Corporate Overview

The Company is a fully integrated CDMO that offers highly differentiated capabilities in the development, fill and finish of complex sterile injectable pharmaceutical products in syringes and vials. As a leading manufacturer of premium, injectable grade sodium 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. The Company brings more than 40 years of expertise as a partner for global and emerging biopharmaceutical and biotechnology companies across multiple therapeutic categories to bring their innovations to market.

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 40 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.

Reportable Segments

The Company operates as one reportable segment. This is based on the objectives of the business and how our chief operating decision maker, the President and Chief Executive Officer, monitors operating performance and allocates resources.

Related Party Transactions

For a discussion of significant related party transactions, refer to Note 1 – Related Party Transactions within the notes to the condensed consolidated financial statements elsewhere in this Quarterly Report on Form 10-Q.

Results of Operations

Revenues and Gross Profit:

Lifecore generates revenues from two integrated activities: (1) CDMO and (2) HA manufacturing. Lifecore generates revenues from the development and manufacture of HA products and provides contract development and aseptic manufacturing services to customers.

As result of the Company exiting all previous food related business as part of the strategic shift in the Company's operations that was completed as of May 28, 2023, commencing with this Quarterly Report on Form 10-Q, the Company changed its presentation of "Product sales" and "Cost of product sales" to "Revenues" and "Cost of goods sold," respectively.

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

(In thousands, except percentages)	Three Months Ended		Change		Six Months Ended		Change	
	November 26, 2023	November 27, 2022	Amount	%	November 26, 2023	November 27, 2022	Amount	%
Total Revenues	$ 30,150	$ 21,864	$ 8,286	38 %	$ 54,672	$ 45,587	$ 9,085	20
Gross Profit	$ 9,957	$ 5,679	$ 4,278	75 %	$ 12,685	$ 11,658	$ 1,027	9

Total revenues for the three months ended November 26, 2023, compared to the same period last year, was due to a $7.5 million increase in CDMO revenues due to increased demand and a $0.8 million increase in fermentation revenues due to the timing of shipments.

The increase in gross profit for the three months ended November 26, 2023, compared to the same period last year, was primarily due to increased revenues resulting in a favorable volume variance of $2.2 million and a favorable sales mix as evidenced by a favorable rate variance of $2.1 million.

Gross profit margin percentage increased from 26.0% to 33.0% for the three months ended November 26, 2023. The 705 basis points (“bps”) improvement is due to a 732 bps increase in CDMO gross profit margin percentage as a result of a favorable sales mix in the aseptic commercial business and a 233 bps increase primarily due to adjustments to write down inventories to their net realizable value in the comparable periods partially offset by a 260 bps reduction resulting from a lower percentage of total sales being fermentation revenues.

Total revenues for the six months ended November 26, 2023, compared to the same period last year, was due to a $10.8 million increase in CDMO revenues due to increased demand, partially offset by a $1.7 million decrease in fermentation revenues due to the timing of shipments.

The increase in gross profit for the six months ended November 26, 2023, compared to the same period last year, was due to increased revenues resulting in a favorable volume variance of $2.3 million partially offset by an unfavorable sales mix as evidenced by an unfavorable rate variance of $1.3 million.

Gross profit margin percentage decreased from 25.6% to 23.2% for the six months ended November 26, 2023. The 237 basis points (“bps”) reduction is due to a 288 bps reduction in CDMO gross profit margin percentage as a result of lower development revenues and an unfavorable sales mix in the aseptic commercial business and a 370 bps reduction resulting from the decrease in fermentation revenues partially offset by a 421 bps increase primarily due to adjustments to write down inventories to their net realizable value in the comparable periods.

Operating Expenses:

(In thousands)	Three Months Ended		Change		Six Months Ended		Change	
	November 26, 2023	November 27, 2022	Amount	%	November 26, 2023	November 27, 2022	Amount	%
Research and Development	$ 2,098	$ 2,177	$ (79)	(4)%	$ 4,244	$ 4,388	$ (144)	
Selling, general and administrative	$ 9,185	$ 8,291	$ 894	11 %	$ 18,391	$ 16,395	$ 1,996	
Gain on sale of divested business	$ —	$ —	$ —	— %	$ —	$ (2,108)	$ 2,108	(1
Restructuring costs	$ 157	$ 563	$ (406)	(72)%	$ 147	$ 1,610	$ (1,463)	(
Total Operating Expenses	$ 11,440	$ 11,031	$ 409	4 %	$ 22,782	$ 20,285	$ 2,497	

Research and Development (“R&D”)

R&D expenses consist primarily of product development and commercialization initiatives. R&D expenses are focused on new products and applications for HA-based and non-HA biomaterials.

The decrease in R&D expenses for the three and six months ended November 26, 2023 compared to the same period last year was not significant.

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

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

The increase in total SG&A expenses for the three months ended November 26, 2023, compared to the same period last year, was primarily due to increased personnel costs including increased headcount of $0.7 million, increases in non-cash stock-based compensation expense due to the higher mix of RSU grants over stock options of $0.4 million , consulting fees incurred in completing the year-end audit for fiscal year 2023 of $0.4 million, and other operating expenses of $0.2 million, partially offset by reductions in audit fees of $0.8 million.

The increase in total SG&A expenses for the six months ended November 26, 2023, compared to the same period last year, was primarily due to increased personnel costs including increased headcount of $1.0 million, consulting fees incurred in completing the year-end audit for fiscal year 2023 of $1.2 million, and other operating expenses of $0.2 million, partially offset by reductions in legal fees of $0.4 million.

Gain on sale of divested business

On June 2, 2022, the Company closed an Asset Purchase Agreement for the sale of all of its assets related to the BreatheWay packaging technology business and recorded a gain of $2.1 million in its Condensed Consolidated Statement of Operations for the six months ended November 27, 2022.

Restructuring Costs

Restructuring costs for the three months ended November 26, 2023 decreased by $0.4 million, compared to the prior year period, as a result of the restructuring plan to divest the Curation Foods businesses being substantially complete. The restructuring costs for the three months ended November 26, 2023 included a $0.2 million expense in employee severance and benefit costs.

Restructuring costs for the six months ended November 26, 2023 decreased by $1.5 million, compared to the prior year period, as a result of the restructuring plan to divest the Curation Foods businesses being substantially complete. The restructuring costs for the six months ended November 26, 2023 include a $0.2 million expense in employee severance and benefit costs.

Other:

(In thousands)	Three Months Ended		Change		Six Months Ended		Change	
	November 26, 2023	November 27, 2022	Amount	%	November 26, 2023	November 27, 2022	Amount	%
Interest expense, net	$ (832)	$ (3,608)	$ 2,776	(77)%	$ (1,625)	$ (6,839)	$ 5,214	(76)%
Interest expense, related party	$ (3,241)	$ —	$ (3,241)	— %	$ (6,385)	$ —	$ (6,385)	— %
Change in fair value of debt derivative liability, related party	$ 20,700	$ —	$ 20,700	— %	$ 20,900	$ —	$ 20,900	— %
Other income (expense), net	$ (967)	$ (237)	$ (730)	308 %	$ (1,138)	$ (434)	$ (704)	162 %
Provision for income tax (expense) benefit	$ 65	$ (4)	$ 69	(1,725)%	$ (23)	$ (8)	$ (15)	188 %

Interest Expense, net

The decrease in interest expense for the three and six months ended November 26, 2023, compared to the same period last year, was primarily a result of the Company’s Term Loan Credit Facility (defined below) being determined to be a related party and being segregated into a separate line item. The remaining interest expense in the current period relates to only the Company’s revolving credit facility, which increased in connection with an increased principle balance and increase in interest rates.

Interest Expense, related party

The increase in interest expense from related party for the three and six months ended November 26, 2023, compared to the same periods in the prior year, was a result of the determination of the lender in the Company’s Term Loan Credit Facility (defined below) was a related party on May 22, 2023. As a result, the Company’s Term Loan Credit Facility was reclassified into a separate line item.

Change in fair value of debt derivative liability, related party

The increase in change in fair value of debt derivative liability, related party for the three and six months ended November 26, 2023, compared to the same periods in the prior year, was due to a change in the fair market value in the current period of the debt derivative liability as a result of the Company’s Term Loan Credit Facility. The key inputs to the valuation models that were utilized to estimate the fair value of the debt derivative liability were (i) an estimated probability related to the timing of a change in control over the 12 months following the end of the fiscal period; (ii) the estimated probability related to an event of default of the Supply Agreement with Alcon, as amended, over the 12 months following the end of the fiscal period; and (iii) a risk-adjusted discount rate. Beginning in the second quarter of fiscal year 2024, there was a decline in the change in control probability assumption in connection with the Company’s review of the strategic alternatives initiative that significantly impacted the fair value of the debt derivative liability. There was no change in the probability related to event of default of the Supply Agreement during fiscal year 2024. There was no derivative liability in the prior period.

Other (Expense) Income

The increase in other (expense) income for the three and six months ended November 26, 2023, compared to the same periods last year, was not significant.

Income Taxes

The change in the income tax provision for the three and six months ended November 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.

Non-GAAP Financial Information and Reconciliations

EBITDA and Consolidated adjusted EBITDA are non-GAAP financial measures. EBITDA from continuing operations represents net income (loss) from continuing operations before interest expense, interest income, income tax (benefit) expense, and depreciation and amortization expense. Adjusted EBITDA from continuing operations reflects adjustments to EBITDA from continuing operations to identify items that, in management's judgment, significantly affect the assessment of earnings results between periods. This information is provided in order to allow investors to make meaningful comparisons of the Company's earnings performance between periods and to view the Company's business from the same perspective as Company management. As the Company cannot predict the timing and amount of charges that include, but are not limited to, items such as costs associated with our reorganization including associated divestitures, movement of headquarters, transactional impacts of these transactions, remaining costs associated with divested businesses and associated cost of third parties (collectively, "Reorganization Costs"), restructuring programs, mark-to-market adjustments on derivative contracts, non- interest financing costs, stock compensation, product launch and start-up costs and other items that may arise from time to time that would impact comparability, management does not consider these costs when evaluating the Company's performance, when making decisions regarding the allocation of resources, in determining incentive compensation, or in determining earnings estimates. EBITDA from continuing operations and adjusted EBITDA from continuing operations are performance measures commonly used by management to assess operating performance and incentive compensation, and the Company believes they are commonly reported and widely used by investors and other interested parties as a measure of a company's operating performance between periods.

The table below includes reconciliations of these non-GAAP financial measures to their respective most directly comparable financial measures calculated in accordance with GAAP.

(In thousands, except percentages)	Three Months Ended		Six Months Ended	
	November 26, 2023	November 27, 2022	November 26, 2023	November 27, 2022
Net income (loss)	$14,218	$(12,806)	$3,464	$(23,772)
Interest expense, net	4,073	3,608	8,010	6,839
Provision for income tax (benefit) expense	(65)	4	23	8
Depreciation and amortization on property and equipment	1,988	2,277	3,935	6,061
EBITDA	$20,214	$(6,917)	$15,432	$(10,864)
Restructuring costs	157	563	147	1,610
Reorganization costs (1)	2,162	2,793	4,899	4,054
Change in fair value of debt derivatives	(20,700)	—	(20,900)	—
Financing fees (non-interest)	1,109	253	1,361	253
Start-up costs	487	—	726	—
Contract cancellation	297	—	297	—
Franchise tax equivalent to income tax	94	60	176	131
Gain on sale of divested business	—	—	—	(2,108)
(Gain) Loss from discontinued operations, net of taxes	24	3,605	(1,832)	7,864
Stock-based compensation	1,578	1,112	3,110	1,896
Total adjusted EBITDA - Consolidated	$5,422	$1,469	$3,416	$2,836

(1) Reorganization costs mainly relate to activities in connection with the approved restructuring plan.
   a. For the three months ended November 26, 2023, the Company incurred non-recurring charges primarily related to: (i) $0.4 million in fees for exploration of strategic opportunities to best position Lifecore as a standalone CDMO, (ii) $1.0 million of incremental audit and consulting fees specifically related to the audit of the numerous non-standard transactions that occurred in fiscal year 2023 associated with the sale of the Yucatan and O Olive businesses, (iii) $0.5 million of costs associated with maintaining abandoned facilities (including the prior headquarters) after the sale of the businesses and incremental compensation expenses for reorganization of the business including costs associated with duplicative roles as the headquarters transitioned to Minnesota, and (iv) $0.3 million litigation costs associated with the divested businesses.

b. For the three months ended November 27, 2022, the Company incurred non-recurring charges primarily related to: (i) $2.0 million of incremental audit and consulting fees specifically related to the audit of the numerous non-standard transactions that occurred in fiscal year 2022 associated with the sale of the Eat Smart business and (ii) $0.5 million for financial advisor and legal fees related to management of the prior term loan lenders and (iii) $0.3 million litigation costs associated with the divested businesses.

c. For the six months ended November 26, 2023, the Company incurred non-recurring charges primarily related to: (i) $1.2 million in fees for exploration of strategic opportunities to best position Lifecore as a stand alone CDMO, (ii) $1.6 million of incremental audit and consulting fees specifically related to the audit of the numerous non-standard transactions that occurred in fiscal year 2023 associated with the sale of the Yucatan and O Olive businesses, (iii) $1.2 million of costs associated with maintaining abandoned facilities (including the prior headquarters) after the sale of the businesses and incremental compensation expenses for reorganization of the business including costs associated with duplicative roles as the headquarters transitioned to Minnesota, and (iv) $0.9 million litigation costs associated with the divested businesses.

d. For the six months ended November 27, 2022, the Company incurred non-recurring charges primarily related to: (i) $3.1 million of incremental audit and consulting fees specifically related to the audit of the numerous non-standard transactions that occurred in fiscal year 2022 associated with the sale of the Eat Smart business and (ii) $0.7 million for financial advisor and legal fees related to management of the prior term loan lenders and (iii) $0.3 million litigation costs associated with the divested businesses.

Liquidity and Capital Resources

As of November 26, 2023, the Company had cash of $3.2 million, a net decrease of $15.9 million from $19.1 million balance as of May 28, 2023.

Cash Flows From Operating Activities

Net cash used in operating activities during the six months ended November 26, 2023 was $7.3 million, compared to $3.5 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 six months ended November 26, 2023 were (1) $3.5 million in net loss offset by certain non-cash adjustments approximating $7.2 million to reconcile to net cash used in operating activities. The non-cash adjustments include (i) $7.5 million of depreciation/amortization and stock-based compensation expense; (ii) $(20.9) million change in debt derivative liability; (iii) $6.2 million of interest expense paid-in-kind; and (iv) $0.1 million of other adjustments. Changes in current assets and current liabilities approximated $3.6 million of a net decrease to working capital.

The primary factors for the $3.6 million net cash uses related to operating working capital during the six months ended November 26, 2023, was uses of cash consisting of (i) an increase of $1.2 million in accounts receivable; (ii) an increase of $0.6 million in inventories; (iii) a decrease in other accrued liabilities of $2.7 million; and (iv) a decrease in accounts payable of $4.3 million due to timing of payments, offset by sources of cash from (i) a decrease of $1.7 million in prepaid expenses and other current assets; and (ii) an increase in deferred revenues of $4.2 million.

Cash Flows From Investing Activities

Net cash used in investing activities during the six months ended November 26, 2023 was $9.0 million, compared to $4.1 million of net cash used in investing activities for the same period last year. Net cash used in investing activities during the six months ended November 26, 2023 was due to the purchase of $9.0 million of equipment to support the growth of the Company's business. The six months ended November 27, 2022 included cash provided of $3.1 million of proceeds from the sale of BreatheWay offset by $7.2 million of purchases of property and equipment.

Cash Flows From Financing Activities

Net cash provided by financing activities during the six months ended November 26, 2023 was $0.5 million compared to $12.7 million of net cash provided by financing activities for the same period last year. The net cash provided by financing activities during the six months ended November 26, 2023 was primarily due to net proceeds on the Company's Revolving Credit Facility of $0.1 million and $0.7 million of proceeds from the sale of common stock, net of issuance costs.

The net cash provided by financing activities during the six months ended November 27, 2022 was primarily due to proceeds from a sale of common stock for $5.0 million and an $8.8 million net increase in the Company's line of credit.

Capital Expenditures

During the six months ended November 26, 2023, the Company incurred $9.0 million of capital expenditures, primarily for purchased property and equipment to support the growth of the business, compared to capital expenditures of $7.2 million for the six months ended November 27, 2022.

Contractual Obligations

The Company's material contractual obligations for the next five years mainly relate to its debt obligations.

The Company's future capital requirements will depend on numerous factors, including the progress of its research and development programs; the continued development of marketing, sales and distribution capabilities; the ability of the Company to establish and maintain new licensing arrangements; the costs associated with employment-related claims; any decision to pursue additional acquisition opportunities; the timing and amount, if any, of payments received under licensing and research and development agreements; the costs involved in preparing, filing, prosecuting, defending, and enforcing intellectual property rights; the ability to comply with regulatory requirements; the emergence of competitive technology and market forces; the effectiveness of product commercialization activities and arrangements; and other factors. If the Company's currently available funds, together with the internally generated cash flow from operations are not sufficient to satisfy its capital needs, the Company would be required to seek additional funding through other arrangements with collaborative partners, additional bank borrowings and public or private sales of its securities. There can be no assurance that additional funds, if required, will be available to the Company on favorable terms, if at all.

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

Debt

As of November 26, 2023 and May 28, 2023, the Company had $16.9 million and $16.8 million, respectively, in borrowings outstanding under the Revolving Credit Facility (defined below), at an effective annual interest rate of 10.18% and 12.16%, respectively.

As of November 26, 2023 and May 28, 2023, the Company had $149.7 million and $142.5 million in borrowings outstanding under the Term Loan Credit Facility, at an effective annual interest rate of 10.0% and 10.0%, respectively.

As of November 26, 2023 and May 28, 2023, the Company was in compliance with all financial covenants under the Term Loan Credit Facility and Revolving Credit Facility.

Term Loan Credit Facility

On May 22, 2023, the Company, Curation and Alcon entered into the Term Loan Credit Facility. The Term Loan Credit Facility refinanced in full all obligations of the Company and their subsidiaries under its prior term loan credit facility. Upon entry into the Term Loan Credit Facility, its prior term loan credit facility was terminated and all noncompliance with debt covenants were thereby cured. Prior to the Term Loan Credit Facility and presently, Alcon is a significant customer of the Company.

The Term Loan Credit Facility provides for up to $142.3 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 Term Loan Credit Facility mature on May 22, 2029.

Revolving Credit Facility

On May 22, 2023, the Borrowers and certain of the Company's other subsidiaries, as guarantors, entered into 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 Facility as of the date of the Revolving Loan Amendment, (ii) the reduction of the maximum amount available under the Revolving Credit Facility 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 Term Loan Credit Facility and address the relative priorities and credit for borrowings related to the Company's commercial relationships with Alcon.

As of November 26, 2023, we had approximately $9.1 million available for borrowing under our revolving credit facility.

Equipment Sale and Leaseback Agreements

On May 22, 2023, the Company entered into the Equipment Sale and Leaseback Agreement, with Alcon, wherein the Company sold the Equipment to Alcon for the Purchase Price. 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). The Purchase Price was subsequently reduced to $7.7 million based on the fair value of the Equipment, as required by the terms of the Equipment Sale and Leaseback Agreement. The difference of $2.3 million between the initial sales value of $10.0 million and the $7.7 million million was added to the term loan agreement, which resulted in a term loan amount of $142.3 million and the proceeds to Lifecore across the two agreements did not change.

Concurrently with the entry into the Equipment Sale and Leaseback Agreement, the Company entered into Refinancing Transactions 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) Paydown Payments plus (ii) 1.5% times the Purchase Price less cumulative Paydown Payments made. The Company concluded that the Equipment Sale and Leaseback Agreement did not meet the requirements for sale-leaseback accounting, therefore the carrying value of the Equipment remains on the Condensed Consolidated Balance Sheet and the Equipment Sale Finance Liability was classified in Long Term debt.

Critical Accounting Estimates

There have been no material changes to the Company's critical accounting estimates from those disclosed in the Company's 2023 Annual Report. For a discussion of our critical accounting 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 2023 Annual Report.

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

There have been no material changes to the Company's Quantitative and Qualitative Disclosures About Market Risk from those disclosed in the 2023 Annual Report. For a discussion of our Quantitative and Qualitative Disclosures About Market Risk, refer to "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A of the 2023 Annual Report.

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

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of 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 November 26, 2023, due to the material weaknesses in internal control over financial reporting that were disclosed in the 2023 Annual Report. The Company is in the process of determining a plan for the remediation of the material weaknesses in internal control over financial reporting.

Management's Plan for Remediation of the Material Weaknesses

Management, with the oversight of the Audit Committee, is committed to remediating the control deficiencies. The remediation efforts are intended to both address the identified material weaknesses and to enhance our overall control environment.

Steps taken by management to date include the following:

- Engaged a third-party consultant to assist with remediation efforts, including enhancing our risk assessment, evaluating gaps in current processes and controls, and developing a remediation plan.

- We have committed to adding a sufficient number of qualified personnel within our accounting and finance team with the appropriate qualified experience in financial reporting, consolidations, technical accounting, and application of U.S. GAAP.

In addition to the above efforts undertaken, the Company plans to initiate the following steps intended to remediate the material weaknesses described above and strengthen its internal control over financial reporting:

- Performing an updated risk assessment responsive to changes in the business and establishing processes to update timely for future changes.

- Implementing new and enhanced controls and procedures responsive to our risk assessment at an appropriate level of precision related to management review and the completeness of controls required to support the financial reporting framework.

- Conducting broad based training over the application of the 2013 COSO Framework for key process owners and control operators.

- Implementing a Section 302 sub-certification program by business leadership and process owners to reinforce the Company's culture of compliance.

- Evaluating accounting policies and procedures by performing a detailed review of the Company's policies against GAAP and SEC reporting checklists.

- Establishing and implementing a SOX Steering Committee.

- Implementing a process to identify and maintain the information required to support the functioning of internal controls over financial reporting.

- Enhancing reviews of non-recurring transactions, including preparing technical accounting memos and consulting with subject matter experts, as needed.

- Expanding the Internal Audit function to perform timely assessment of design and operating effectiveness of controls and evaluation of remediation of control deficiencies.

The material weaknesses will not be considered remediated until management designs and implements effective controls that operate for a sufficient period of time and management has concluded, through testing, that these controls are effective. As we continue to evaluate operating effectiveness and monitor improvements to our internal control over financial reporting, we may take additional measures to address control deficiencies or modify the remediation plan described above.

Changes in Internal Control over Financial Reporting

Except for the remediation planning efforts described above, there have been no changes in our system of internal control over financial reporting during the quarter ended November 26, 2023 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 in Part I, Item 1A, “Risk Factors” of the 2023 Annual Report, 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. These risks are not the only risks that may affect us. Additional risks that we are not aware of or do not believe are material at the time of this filing may also become important factors that adversely affect our business. There have been no material changes to our risk factors as previously disclosed under Part I, Item 1A “Risk Factors” in the 2023 Annual Report.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Rule 10b5-1 Trading Plans

During the three months ended November 26, 2023, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

Exhibit Number	Exhibit Title
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+	Inline XBRL Instance Document–the instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL document
101.SCH+	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents
104+	Cover Page Interactive Data File (embedded within the Inline XBRL document)
*	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
Executive Vice-President, Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

Date: August 9, 2024

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, Paul Josephs, 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: August 9, 2024

/s/ Paul Josephs
Paul Josephs
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: August 9, 2024

/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 November 26, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Paul Josephs, President and Chief Executive 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: August 9, 2024

/s/ Paul Josephs
Paul Josephs
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 November 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: August 9, 2024

/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.