

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 24, 2023

OR

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

For the transition period from _____ to _____

Commission File Number: 001-39411

Vital Farms, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

3601 South Congress Avenue
Suite C100
Austin, Texas
(Address of principal executive offices)

27-0496985
(I.R.S. Employer
Identification No.)

78704
(Zip Code)

(877) 455-3063
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	VITL	The Nasdaq Stock Market LLC

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging Growth Company	<input checked="" type="checkbox"/>

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 October 30, 2023 the registrant had 41,602,263 shares of common stock, \$0.0001 par value per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the “Quarterly Report”) contains “forward-looking statements” (within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report, including statements regarding our future results of operations or financial condition, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will” or “would” or the negative of these words or other similar terms or expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- our expectations regarding our revenue, expenses and other operating results;
- our ability to acquire new customers and successfully retain existing customers;
- our ability to attract and retain our suppliers, distributors and co-manufacturers;
- our ability to maintain relationships with our existing farm networks or further expand such networks;
- our ability to sustain or increase our profitability;
- our expectations regarding our future growth in the foodservice channel, including commercial and non-commercial foodservice business;
- our ability to procure sufficient high-quality eggs, cream for our butter and other raw materials;
- real or perceived quality or food safety issues with our products or other issues that adversely affect our brand and reputation;
- changes in the tastes and preferences of our consumers;
- the financial condition of, and our relationships with, our farmers, suppliers, co-manufacturers, distributors, retailers and foodservice customers, as well as the health of the foodservice industry generally;
- the effects of outbreaks of agricultural diseases, such as avian influenza, or the perception that such outbreaks may occur or regulatory or market responses to such outbreaks generally;
- the ability of our farmers, suppliers and co-manufacturers to comply with food safety, environmental or other laws or regulations;
- the effects of a public health pandemic or contagious disease, such as COVID-19, or fear of such outbreaks, on our supply chain, the demand for our products, and on overall economic conditions and consumer confidence and spending levels;
- the impact of the completed expansion of our Egg Central Station facility or future expansions of our processing capacity on our revenue;
- future investments in our business, our anticipated capital expenditures and our estimates regarding our capital requirements;
- anticipated changes in our product offerings and our ability to innovate to offer successful new products;
- our ability to successfully enter into new product categories;
- the costs and success of our marketing efforts, and our ability to promote our brand;
- our reliance on key personnel and our ability to identify, recruit and retain personnel;
- our ability to effectively manage our growth;
- the potential influence of our focus on a specific public benefit purpose and producing a positive effect for society;
- our environmental, sustainability and governance goals, opportunities and initiatives, as well as the standards and expectations of third parties regarding these matters;
- our ability to compete effectively with existing competitors and new market entrants;
- the impact of adverse economic conditions, including as a result of unfavorable global economic and political conditions, increased interest rates and inflation;

- the sufficiency of our cash, cash equivalents, marketable securities and availability of credit under our credit facility to meet our liquidity needs;
- seasonality; and
- the growth rates of the markets in which we compete.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition and operating results. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in the section titled “Risk Factors” and elsewhere in this Quarterly Report. A summary of selected risks associated with our business is set forth at the beginning of the section titled “Risk Factors.” Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Quarterly Report. And while we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in this Quarterly Report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report to reflect events or circumstances after the date of this Quarterly Report or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments.

PART I – FINANCIAL INFORMATION

VITAL FARMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share amounts)

	September 24, 2023 (Unaudited)	December 25, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 56,810	\$ 12,914
Investment securities, available-for-sale	39,256	65,814
Accounts receivable, net	37,401	38,895
Inventories	38,271	26,849
Prepaid expenses and other current assets	5,026	5,142
Total current assets	176,764	149,614
Property, plant and equipment, net	67,859	59,155
Operating lease right-of-use assets	1,512	1,895
Goodwill and other assets	3,904	4,002
Total assets	\$ 250,039	\$ 214,666
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 21,970	\$ 25,972
Accrued liabilities	26,729	18,477
Operating lease liabilities, current	685	1,208
Finance lease liabilities, current	3,118	1,570
Income taxes payable	456	425
Total current liabilities	52,958	47,652
Operating lease liabilities, non-current	961	892
Finance lease liabilities, non-current	11,120	7,023
Other liabilities	2,125	767
Total liabilities	\$ 67,164	\$ 56,334
Commitments and contingencies (Note 19)		
Stockholders' equity:		
Common stock, \$0.0001 par value per share, 310,000,000 shares authorized as of September 24, 2023 and December 25, 2022; 41,574,449 and 40,746,990 shares issued and outstanding as of September 24, 2023 and December 25, 2022, respectively	4	4
Additional paid-in capital	161,081	155,716
Retained earnings	22,515	4,159
Accumulated other comprehensive loss	(725)	(1,547)
Total stockholders' equity	\$ 182,875	\$ 158,332
Total liabilities and stockholders' equity	\$ 250,039	\$ 214,666

See accompanying notes to the unaudited condensed consolidated financial statements.

VITAL FARMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except share and per share data)
(Unaudited)

	13-Weeks Ended		39-Weeks Ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Net revenue	\$ 110,429	\$ 92,040	\$ 336,046	\$ 251,969
Cost of goods sold	73,764	62,549	218,913	175,838
Gross profit	36,665	29,491	117,133	76,131
Operating expenses:				
Selling, general and administrative	25,081	20,561	72,935	55,193
Shipping and distribution	6,355	6,906	20,034	22,279
Total operating expenses	31,436	27,467	92,969	77,472
Income (loss) from operations	5,229	2,024	24,164	(1,341)
Other (expense) income, net:				
Interest expense	(238)	(12)	(513)	(27)
Interest income	707	312	1,497	652
Other expense, net	(642)	(148)	(2,508)	(151)
Total other (expense) income, net	(173)	152	(1,524)	474
Net income (loss) before income taxes	5,056	2,176	22,640	(867)
Income tax provision (benefit)	533	1,465	4,284	(232)
Net income (loss)	4,523	711	18,356	(635)
Less: Net loss attributable to noncontrolling interests	—	(12)	—	(21)
Net income (loss) attributable to Vital Farms, Inc. common stockholders	\$ 4,523	\$ 723	\$ 18,356	\$ (614)
Net income (loss) per share attributable to Vital Farms, Inc. stockholders:				
Basic:	\$ 0.11	\$ 0.02	\$ 0.45	\$ (0.02)
Diluted:	\$ 0.10	\$ 0.02	\$ 0.42	\$ (0.02)
Weighted average common shares outstanding:				
Basic:	41,375,008	40,695,014	41,037,778	40,618,736
Diluted:	43,135,579	42,879,818	43,299,898	40,618,736

See accompanying notes to the unaudited condensed consolidated financial statements.

VITAL FARMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Amounts in thousands)
(Unaudited)

	13-Weeks Ended		39-Weeks Ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Net income (loss)	\$ 4,523	\$ 711	\$ 18,356	\$ (635)
Other comprehensive income (loss), before tax:				
Available-for-sale debt securities:				
Unrealized net holding gain (loss)	271	(562)	916	(2,159)
Amounts reclassified for realized losses to earnings	53	96	182	166
Available-for-sale debt securities, before tax	324	(466)	1,098	(1,993)
Other comprehensive income (loss), before tax	324	(466)	1,098	(1,993)
Income tax (expense) benefit related to items of other comprehensive income (loss)	(85)	110	(276)	471
Other comprehensive income (loss), net of tax	239	(356)	822	(1,522)
Comprehensive income (loss)	4,762	355	19,178	(2,157)
Less: Comprehensive loss attributable to noncontrolling interests	—	(12)	—	(21)
Comprehensive income (loss) attributable to Vital Farms, Inc. common stockholders	<u>\$ 4,762</u>	<u>\$ 367</u>	<u>\$ 19,178</u>	<u>\$ (2,136)</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

VITAL FARMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in thousands, except share amounts)
(Unaudited)

	<u>Common Stock</u>		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balances as of December 25, 2022	40,746,990	\$ 4	\$ 155,716	\$ 4,159	\$ (1,547)	\$ 158,332
Vesting of restricted stock units	127,595	—	—	—	—	—
Shares withheld for tax liability on vested restricted stock units	(35,535)	—	—	—	—	—
Stock-based compensation expense	—	—	1,627	—	—	1,627
Other comprehensive income, net	—	—	—	—	421	421
Net income	—	—	—	7,150	—	7,150
Balances as of March 26, 2023	40,839,050	\$ 4	\$ 157,343	\$ 11,309	\$ (1,126)	\$ 167,530
Exercise of stock options	307,500	—	110	—	—	110
Vesting of restricted stock units	79,030	—	—	—	—	—
Shares withheld for tax liability on vested restricted stock units	(3,924)	—	(636)	—	—	(636)
Shares issued under employee stock purchase plan	11,011	—	135	—	—	135
Stock-based compensation expense	—	—	2,060	—	—	2,060
Other comprehensive income, net	—	—	—	—	162	162
Net income	—	—	—	6,683	—	6,683
Balances as of June 25, 2023	41,232,667	\$ 4	\$ 159,012	\$ 17,992	\$ (964)	\$ 176,044
Exercise of stock options	335,000	—	286	—	—	286
Vesting of restricted stock units	9,525	—	—	—	—	—
Shares withheld for tax liability on vested restricted stock units	(2,743)	—	(32)	—	—	(32)
Stock-based compensation expense	—	—	1,815	—	—	1,815
Other comprehensive income, net	—	—	—	—	239	239
Net income	—	—	—	4,523	—	4,523
Balances as of September 24, 2023	<u>41,574,449</u>	<u>\$ 4</u>	<u>\$ 161,081</u>	<u>\$ 22,515</u>	<u>\$ (725)</u>	<u>\$ 182,875</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

VITAL FARMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE NONCONTROLLING INTEREST AND STOCKHOLDERS' EQUITY
(Amounts in thousands, except share amounts)
(Unaudited)

	Redeemable Noncontrolling Interest	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulate d Other Comprehen sive Loss	Total Stockholders' Equity Attributable		
	Amount	Shares	Amount				to Vital Farms, Inc. Stockholders	Noncontrollin g Interests	Total Stockholders' Equity
Balances as of December 26, 2021	\$ 175	40,493,969	\$ 5	\$ 149,000	\$ 2,746	\$ (281)	\$ 151,470	\$ 115	\$ 151,585
Exercise of stock options	—	102,328	—	254	—	—	254	—	254
Stock-based compensation expense	—	—	—	1,296	—	—	1,296	—	1,296
Net loss attributable to noncontrolling interests – stockholders	—	—	—	—	162	—	162	(164)	(2)
Other comprehensive loss, net	—	—	—	—	—	(783)	(783)	—	(783)
Net loss attributable to Vital Farms, Inc. stockholders	—	—	—	—	(1,536)	—	(1,536)	—	(1,536)
Balances as of March 27, 2022	\$ 175	40,596,297	\$ 5	\$ 150,550	\$ 1,372	\$ (1,064)	\$ 150,863	\$ (49)	\$ 150,814
Exercise of stock options	—	35,573	—	143	—	—	143	—	143
Vesting of restricted stock units	—	47,544	—	(9)	—	—	(9)	—	(9)
Stock-based compensation expense	—	—	—	1,633	—	—	1,633	—	1,633
Net loss attributable to noncontrolling interests – stockholders	—	—	—	—	—	—	—	(7)	(7)
Other comprehensive loss, net	—	—	—	—	—	(383)	(383)	—	(383)
Net income attributable to Vital Farms, Inc. stockholders	—	—	—	—	199	—	199	—	199
Balances as of June 26, 2022	\$ 175	40,679,414	\$ 5	\$ 152,317	\$ 1,571	\$ (1,447)	\$ 152,446	\$ (56)	\$ 152,390
Exercise of stock options	—	49,941	—	171	—	—	171	—	171
Vesting of restricted stock units	—	2,524	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	1,578	—	—	1,578	—	1,578
Dissolution of equity investment	(175)	—	(1)	—	—	—	(1)	68	67
Net loss attributable to noncontrolling interests – stockholders	—	—	—	—	—	—	—	(12)	(12)
Other comprehensive loss, net	—	—	—	—	—	(356)	(356)	—	(356)
Net income attributable to Vital Farms, Inc. stockholders	—	—	—	—	723	—	723	—	723
Balances as of September 25, 2022	\$ —	40,731,879	\$ 4	\$ 154,066	\$ 2,294	\$ (1,803)	\$ 154,561	\$ —	\$ 154,561

See accompanying notes to the unaudited condensed consolidated financial statements.

VITAL FARMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	39-Weeks Ended	
	September 24, 2023	September 25, 2022
Cash flows from operating activities:		
Net income (loss)	\$ 18,356	\$ (635)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,595	3,795
Amortization of right-of-use assets	2,787	1,228
Amortization of available-for-sale debt securities	341	660
Stock-based compensation expense	5,502	4,498
Deferred taxes	1,082	(474)
Change in fair value of derivative instruments	761	—
Other	363	260
Net change in operating assets and liabilities	(7,610)	(12,700)
Net cash provided by (used in) operating activities	<u>\$ 27,177</u>	<u>\$ (3,368)</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(9,138)	(6,898)
Purchases of available-for-sale debt securities	(982)	(33,173)
Purchases and settlements of derivative instruments	(1,264)	—
Sales of available-for-sale debt securities	2,895	—
Maturities and calls of available-for-sale debt securities	25,228	31,145
Proceeds from the sale of property, plant and equipment	1,056	89
Return of investment in variable interest entity	552	—
Dissolution of equity investment	—	(108)
Net cash provided by (used in) investing activities	<u>\$ 18,347</u>	<u>\$ (8,945)</u>
Cash flows from financing activities:		
Proceeds from borrowing under revolving line of credit	7,500	—
Proceeds from exercise of stock options	396	559
Proceeds from issuance of common stock under employee stock purchase plan	135	—
Repayment of revolving line of credit	(7,500)	—
Payment of tax withholding obligation on vested RSU shares	(668)	—
Principal payments under finance lease obligations	(1,491)	(336)
Payment of contingent consideration	—	(38)
Net cash (used in) provided by financing activities	<u>\$ (1,628)</u>	<u>\$ 185</u>
Net increase (decrease) in cash and cash equivalents	43,896	(12,128)
Cash and cash equivalents at beginning of the period	12,914	30,966
Cash and cash equivalents at end of the period	<u>\$ 56,810</u>	<u>\$ 18,838</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 507	\$ 27
Cash paid for income taxes	\$ 3,189	\$ 97
Supplemental disclosure of non-cash investing and financing activities:		
Purchases of property, plant and equipment included in accounts payable and accrued liabilities	\$ 667	\$ 868

See accompanying notes to the unaudited condensed consolidated financial statements.

VITAL FARMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share amounts)
(Unaudited)

Note 1. Nature of the Business and Basis of Presentation

Vital Farms, Inc. (the “Company,” “we,” “us” or “our”) was incorporated in Delaware on June 6, 2013 and is headquartered in Austin, Texas. The Company packages, markets and distributes shell eggs, butter and other products. These products are principally sold under the name Vital Farms in addition to other trade names, primarily to retail and foodservice channels in the United States.

The accompanying unaudited condensed consolidated financial statements as of September 24, 2023 and for the 13-week and 39-week periods ended September 24, 2023 and September 25, 2022 have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto in our Annual Report on Form 10-K for the fiscal year ended December 25, 2022 (the “Annual Report”).

In the opinion of management, the included disclosures are adequate, and the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair statement of our consolidated financial position as of September 24, 2023, consolidated results of operations for the 13-week and 39-week periods ended September 24, 2023 and September 25, 2022, and consolidated cash flows for the 39-week periods ended September 24, 2023 and September 25, 2022. Such adjustments are of a normal and recurring nature and certain reclassifications of previously reported amounts have been made to conform to the current year presentation. The condensed consolidated balance sheet as of December 25, 2022 was derived from audited annual financial statements but does not contain all of the footnote disclosures from the audited annual financial statements. The condensed consolidated results of operations for the 13-week and 39-week periods ended September 24, 2023 are not necessarily indicative of the consolidated results of operations that may be expected for the fiscal year ending December 31, 2023.

Fiscal Year: The Company’s fiscal year ends on the last Sunday in December and contains either 52 or 53 weeks. In a 52-week fiscal year, each of the Company’s fiscal quarters consist of 13 weeks. The additional week in a 53-week fiscal year is added to the fourth quarter, making such quarter consist of 14 weeks. Therefore, the financial results of certain 53-week fiscal years, and the associated 14-week quarters, will not be exactly comparable to the prior and subsequent 52-week fiscal years and the associated 13-week quarters. The fiscal quarters ended September 24, 2023 and September 25, 2022 both contain operating results for 13 weeks. The fiscal year ending December 31, 2023 will include 53 weeks.

Note 2. Summary of Significant Accounting Policies

The significant accounting policies and estimates used in preparation of the unaudited condensed consolidated financial statements are described in the Company’s audited consolidated financial statements as of and for the fiscal year ended December 25, 2022, and the notes thereto, which are included in our Annual Report. Other than the adoption of the new accounting pronouncements and standards as further described below, there have been no material changes to the Company’s significant accounting policies during the 39-week period ended September 24, 2023.

As of December 26, 2022, the Company has entered into derivative instruments as part of its risk management strategy. Our business operations give rise to certain market risk exposures, mostly due to changes in commodity prices. We use derivative financial instruments to reduce our exposure to commodity price risk. Credit risks associated with derivative contracts are not significant, as the Company minimizes counterparty exposure by dealing with creditworthy counterparties and collateralized insurers and by utilizing exchange traded instruments and insurance backed commodity settlement contracts. While the Company may be exposed to potential losses due to the credit risk of non-performance by these counterparties, losses are not anticipated. We do not hold derivative instruments for trading purposes. Additionally, the Company’s derivative contracts are short-term in duration, and do not make use of credit-risk-related contingent features.

Derivatives used to manage commodity price risk are not designated for hedge accounting treatment. Therefore, the changes in fair value of these derivatives are recorded as incurred within other expense, net. Cash flows related to derivative instruments are considered an investing activity of the Company. Cash settlements we receive represent realized gains on derivative instruments, while cash settlements we pay represent realized losses related to our commodity derivative instruments.

Recently Adopted Accounting Pronouncements

The new accounting pronouncements recently adopted by the Company are described in the Company's audited consolidated financial statements as of and for the fiscal year ended December 25, 2022, and the notes thereto, which are included in our Annual Report. Except as described below, there have been no new accounting pronouncements adopted by the Company during the 39-week period ended September 24, 2023.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13") and also issued subsequent amendments to the initial guidance, ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10, ASU 2019-11, ASU 2020-02, ASU 2020-03 and ASU 2022-02 (collectively, "Topic 326"), to introduce a new impairment model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. Topic 326 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The Company adopted ASU 2016-13 on December 26, 2022. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. There was no impact on the Company's unaudited condensed consolidated financial statements at adoption.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which intends to simplify the guidance by removing certain exceptions to the general principles and clarifying or amending existing guidance. ASU 2019-12 is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company adopted ASU 2019-12 during fiscal year 2022 and there was no material impact on the Company's consolidated financial statements for the year ended December 25, 2022 or on the unaudited condensed consolidated financial statements presented herein.

Recently Issued Accounting Pronouncements Not Yet Adopted

None.

Note 3. Investment Securities

The following table summarizes the Company's available-for-sale investment securities as of September 24, 2023:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. corporate bonds and U.S. dollar denominated foreign bonds	\$ 40,177	\$ —	\$ (921)	\$ —	\$ 39,256
Total	<u>\$ 40,177</u>	<u>\$ —</u>	<u>\$ (921)</u>	<u>\$ —</u>	<u>\$ 39,256</u>

The following table summarizes the Company's available-for-sale investment securities as of December 25, 2022:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. corporate bonds and U.S. dollar denominated foreign bonds	\$ 66,658	\$ 4	\$ (2,000)	\$ —	\$ 64,662
U.S. Treasury	1,176	—	(24)	—	1,152
Total	<u>\$ 67,834</u>	<u>\$ 4</u>	<u>\$ (2,024)</u>	<u>\$ —</u>	<u>\$ 65,814</u>

Proceeds from the sale of available-for-sale securities were \$988 and \$2,895 for the 13-week and 39-week periods ended September 24, 2023, respectively, and \$0 for the 13-week and 39-week periods ended September 25, 2022.

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The amortized cost and fair value of the Company's investments in available-for-sale securities as of September 24, 2023 by contractual maturity are as follows:

	Amortized Cost	Fair Value
Due within one year	\$ 26,680	\$ 26,209
Due after one year through five years	13,497	13,047
Total available-for-sale	\$ 40,177	\$ 39,256

The following tables present the Company's unrealized loss aging for available-for-sale securities by type and length of time the security was in a continuous unrealized loss position as of the periods presented:

	September 24, 2023					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. corporate bonds and U.S. dollar denominated foreign bonds	\$ 2,316	\$ (24)	\$ 34,870	\$ (897)	\$ 37,186	\$ (921)
Total	\$ 2,316	\$ (24)	\$ 34,870	\$ (897)	\$ 37,186	\$ (921)

	December 25, 2022					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. corporate bonds and U.S. dollar denominated foreign bonds	\$ 31,657	\$ (888)	\$ 32,406	\$ (1,112)	\$ 64,063	\$ (2,000)
U.S. Treasury	—	—	1,176	(24)	1,176	(24)
Total	\$ 31,657	\$ (888)	\$ 33,582	\$ (1,136)	\$ 65,239	\$ (2,024)

As of September 24, 2023, there were 60 diversified issuances in our securities portfolio in an unrealized loss position, with credit ratings ranging from BBB to AAA. As of September 24, 2023, there are no individual bonds with unrealized losses exceeding \$71, and 57 issuances have been in a loss position greater than 12 months.

The decline in fair value has resulted primarily from rising interest rates over the last 12 months, and the Company does not believe there has been any significant decline in the creditworthiness of the issuers. The Company also does not believe it is likely that a significant number of bonds will be called early, and it does not have current liquidity needs that would necessitate a sale of any material investments prior to maturity. Therefore, the Company has not recorded an allowance for credit losses on the investment securities as of September 24, 2023.

The fair value and location of all investment securities are included in "Fair Value Measurements" in Note 5 below.

Note 4. Derivative Financial Instruments

The Company enters into derivative instruments to mitigate the impact of commodity price volatility. Such instruments may include call options on commodity price contracts. Realized and unrealized gains and losses on our commodity derivatives not designated as hedging instruments are recorded in other expense, net. The Company recognizes all derivative instruments as either assets or liabilities.

The following table presents the aggregated outstanding notional amounts related to the Company's derivative financial instruments for the periods presented:

	Metric	September 24, 2023	December 25, 2022
Commodity:			
Corn	Bushels (in thousands)	933	—
Soybean Meal	Tons	10	—

For the 13-week periods ended September 24, 2023 and September 25, 2022, the pre-tax amount of commodity contract derivative losses recognized in other expense, net was \$588 and \$0, respectively. For the 39-week periods ended September 24, 2023 and September 25, 2022, the pre-tax amount of commodity contract derivative losses recognized in other expense, net was \$2,405 and \$0, respectively.

The fair value and location of all outstanding derivative financial instruments are included in "Fair Value Measurements" in Note 5 below.

Note 5. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of inputs that may be used to measure fair value are defined below:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

Assets Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The following tables present information about the Company’s financial assets measured at fair value on a recurring basis for the periods presented:

	Fair Value Measurements as of September 24, 2023, Using:			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents:				
Money market	\$ 47,559	\$ —	\$ —	\$ 47,559
Investment securities, available-for-sale:				
U.S. corporate bonds and U.S. dollar denominated foreign bonds	—	39,256	—	39,256
Prepaid expenses and other current assets:				
Derivative financial instruments	—	99	—	99
Total assets measured at fair value	<u>\$ 47,559</u>	<u>\$ 39,355</u>	<u>\$ —</u>	<u>\$ 86,914</u>

	Fair Value Measurements as of December 25, 2022, Using:			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents:				
Money market	\$ 6,740	\$ —	\$ —	\$ 6,740
Investment securities, available-for-sale:				
U.S. corporate bonds and U.S. dollar denominated foreign bonds	—	64,662	—	64,662
U.S. Treasury	—	1,152	—	1,152
Total assets measured at fair value	<u>\$ 6,740</u>	<u>\$ 65,814</u>	<u>\$ —</u>	<u>\$ 72,554</u>

During the 39-week period ended September 24, 2023, there were no transfers between fair value measurement levels. For additional information on concentrations of credit risk for the Company’s financial instruments, refer to “Summary of Significant Accounting Policies” in Note 2 and “Investment Securities” in Note 3.

Fair Value of Other Financial Instruments

The carrying values of the Company’s short-term financial instruments not included above, including cash, trade receivables, other receivables and accounts payable, approximate their fair value due to their short-term nature.

Note 6. Revenue Recognition

The following table summarizes the Company’s net revenue by primary product for the periods presented:

	13-Weeks Ended		39-Weeks Ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Net Revenue:				
Eggs and egg-related products	\$ 103,887	\$ 86,191	\$ 318,462	\$ 236,419
Butter and butter-related products	6,542	5,849	17,584	15,550
Net Revenue	<u>\$ 110,429</u>	<u>\$ 92,040</u>	<u>\$ 336,046</u>	<u>\$ 251,969</u>

Net revenue is primarily generated from the sale of eggs and butter. The Company’s product offerings include shell eggs, hard-boiled eggs, liquid whole eggs and butter (including stick butter and spreadable tub butter). The Company’s previous convenient breakfast product line (including egg bites and egg-based breakfast bars) was discontinued in 2022, and the Company’s ghee product line was discontinued during the 39-week period ended September 24, 2023.

As of September 24, 2023 and December 25, 2022, the Company had customers that individually represented 10% or more of the Company's accounts receivable, net, and during the 13-week periods ended September 24, 2023 and September 25, 2022 and the 39-week periods ended September 24, 2023 and September 25, 2022, the Company had customers that individually exceeded 10% or more of the Company's net revenue. The percentage of net revenue from significant customers during the 13-week and 39-week periods ended September 24, 2023 and September 25, 2022 is as follows:

	Net Revenue for the 13-Weeks Ended September 24, 2023	Net Revenue for the 13-Weeks Ended September 25, 2022	Net Revenue for the 39-Weeks Ended September 24, 2023	Net Revenue for the 39-Weeks Ended September 25, 2022
Customer A	24%	24%	25%	27%
Customer B	*	11%	*	11%

* Revenue was less than 10%

The percentage of accounts receivable, net due from significant customers as of September 24, 2023 and December 25, 2022 is as follows:

	Accounts Receivable, Net as of September 24, 2023	Accounts Receivable, Net as of December 25, 2022
Customer A	19%	23%
Customer B	11%	12%
Customer C	10%	13%

Note 7. Allowance for Credit Losses

As of September 24, 2023 and December 25, 2022, the Company had an allowance for credit losses of \$1,058 and \$699, respectively.

The Company recognizes current estimated credit losses ("CECL") for accounts receivable. The CECL for trade receivables are estimated based on the trade receivable aging category, credit risk of specific customers, past collection history, and management's evaluation of accounts receivable. The Company also has other receivables which are classified within prepaid expenses and other current assets. The CECL for other receivables are estimated based on the other receivables aging category and the probability of default. Provisions for CECL are classified within selling, general and administrative costs.

Changes in the allowance for credit losses for the 39-week period ended September 24, 2023 were as follows:

	Trade receivables	Other receivables	Total
As of December 25, 2022	\$ (493)	\$ (206)	\$ (699)
Provisions charged to operating results	(170)	(63)	(233)
Account write-offs	149	—	149
As of March 26, 2023	\$ (514)	\$ (269)	\$ (783)
(Provisions) reductions charged to operating results	(328)	88	(240)
Account write-offs	5	—	5
As of June 25, 2023	\$ (837)	\$ (181)	\$ (1,018)
Reductions (provisions) charged to operating results	128	(421)	(293)
Account write-offs	153	100	253
As of September 24, 2023	\$ (556)	\$ (502)	\$ (1,058)

Note 8. Inventories

Inventory consisted of the following as of the periods presented:

	September 24, 2023	December 25, 2022
Eggs and egg-related products	\$ 26,437	\$ 13,675
Butter and butter-related products	3,095	5,718
Packaging	6,794	5,452
Pullets	1,236	981
Other	793	1,121
Reserve for inventory obsolescence	(84)	(98)
Inventories	<u>\$ 38,271</u>	<u>\$ 26,849</u>

On a periodic basis, the Company compares the amount of inventory on hand with its latest forecasted requirements to determine whether provisions for excess or obsolete inventory reserves are required.

Note 9. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of the periods presented:

	September 24, 2023	December 25, 2022
Land	\$ 552	\$ 552
Land improvements	835	835
Buildings and improvements	30,235	29,667
Vehicles	1,055	894
Machinery and equipment	47,561	34,978
Leasehold improvements	919	919
Furniture and fixtures	780	685
Construction in progress	4,593	3,312
	<u>86,530</u>	<u>71,842</u>
Less: Accumulated depreciation and amortization	(18,671)	(12,687)
Property, plant and equipment, net	<u>\$ 67,859</u>	<u>\$ 59,155</u>

During the 13-week periods ended September 24, 2023 and September 25, 2022, depreciation and amortization of property, plant and equipment was approximately \$2,052 and \$1,508, respectively. During the 39-week periods ended September 24, 2023 and September 25, 2022, depreciation and amortization of property, plant and equipment was approximately \$5,595 and \$3,795, respectively.

Note 10. Leases

Operating lease cost is recognized on a straight-line basis over the lease term and finance lease cost is recognized as amortization expense for the right-of-use ("ROU") assets and interest expense associated with the finance lease liabilities.

The components of lease cost, classified within cost of goods sold, selling, general and administrative and interest expense for the 13-week and 39-week periods ended September 24, 2023 and September 25, 2022 are below:

	13-Weeks Ended		39-Weeks Ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Operating lease cost	\$ 411	\$ 361	\$ 1,133	\$ 1,083
Finance lease cost – amortization of right-of-use assets	808	59	1,702	216
Finance lease cost – interest on lease liabilities	238	—	495	5
Short-term lease cost	316	32	738	46
Variable lease cost	973	800	4,651	1,870
Variable lease cost – long-term supply contracts	48,453	34,702	138,603	97,047
Total lease cost	<u>\$ 51,199</u>	<u>\$ 35,954</u>	<u>\$ 147,322</u>	<u>\$ 100,267</u>

Future undiscounted cash flows are as follows:

	As of September 24, 2023	
	Operating Leases	Finance Leases
2023	\$ 186	\$ 1,001
2024	707	4,004
2025	575	4,004
2026	293	4,004
2027	—	3,332
Thereafter	—	—
Total lease payments	<u>1,761</u>	<u>16,345</u>
Less imputed interest	(115)	(2,107)
Total present value of lease liabilities	<u>\$ 1,646</u>	<u>\$ 14,238</u>

During the 39-week periods ended September 24, 2023 and September 25, 2022, ROU assets obtained in exchange for new finance lease obligations were \$7,132 and \$26, respectively. During the 39-week periods ended September 24, 2023 and September 25, 2022, ROU assets obtained in exchange for new operating lease obligations were \$703 and \$0, respectively.

Note 11. Accrued Liabilities

Accrued liabilities consisted of the following as of the periods presented:

	September 24, 2023	December 25, 2022
Employee-related costs	\$ 7,473	\$ 7,453
Promotions and customer deductions	6,686	4,414
Distribution fees and freight	4,607	2,351
Marketing and broker commissions	3,329	1,598
Purchases of inventory	1,606	1,349
Derivative premiums	1,094	—
Property, plant and equipment	468	153
Professional fees	359	761
Other	1,107	398
Accrued liabilities	<u>\$ 26,729</u>	<u>\$ 18,477</u>

Note 12. Product Exit Costs

During the fiscal year ended December 25, 2022, the Company made the determination to exit its convenient breakfast product category due to a shift in the Company's focus to product categories that are core to its operations. Charges incurred in connection with these product exits were substantially complete by December 25, 2022. Charges related to the exit of our ghee product category during 2023 are immaterial.

As of December 25, 2022, the ending liability balance related to the convenience breakfast category exit was \$119. As of September 24, 2023, remaining liabilities of \$45 are expected to be settled or released by the end of the 14-week period ending December 31, 2023.

The following tables summarize the activity related to the exit of the Company's convenient breakfast product category during the periods presented:

Description	Statement of Operations Classification	For the 39-Weeks Ended September 24, 2023				
		Beginning Liability Balance	Charges Incurred	Amounts Paid or Settled	Amounts Released as Unutilized	Ending Liability Balance
Asset write-downs	Cost of goods sold	\$ 119	\$ —	\$ (74)	\$ —	\$ 45
Total		\$ 119	\$ —	\$ (74)	\$ —	\$ 45

Description	Statement of Operations Classification	For the 39-Weeks Ended September 25, 2022			
		Charges Incurred	Amounts Paid or Settled	Amounts Released as Unutilized	Ending Liability Balance
Contract terminations	Selling, general and administrative	\$ 1,126	\$ (1,126)	\$ —	\$ —
Inventory obsolescence	Cost of goods sold	749	(749)	—	—
Customer allowances	Net revenue	146	(111)	(35)	—
Asset write-downs	Cost of goods sold	119	—	—	119
Co-manufacturer charges	Cost of goods sold	135	(135)	—	—
Asset disposals	Selling, general and administrative	66	(66)	—	—
Total		\$ 2,341	\$ (2,187)	\$ (35)	\$ 119

Note 13. Long-Term Debt

In October 2017, the Company entered into a credit facility agreement with PNC Bank, National Association (the "Credit Facility") that initially included a \$4.7 million term loan, a \$10.0 million revolving line of credit and an equipment loan with a maximum borrowing capacity of \$1.5 million.

Subsequently, the terms of the Credit Facility were modified at various times between fiscal 2018 and fiscal 2022. Such amendments (i) amended various definitions, (ii) waived a technical default in May 2020 which was triggered by exceeding the capital expenditure limit, (iii) increased borrowing capacity and (iv) extended the maturity date. The Ninth Amendment to the Credit Facility in April 2021 eliminated the term loan and equipment loan. The Tenth Amendment to the Credit Facility in December 2022 modified certain covenants related to commodity hedging, provided consent for the dissolution of immaterial subsidiaries and implemented changes related to the discontinuation of LIBOR. The Eleventh Amendment to the Credit Facility, effective July 26, 2023 extended the maturity date by one year, to April 2, 2025.

The maximum borrowing capacity under the revolving line of credit is currently \$20.0 million. Interest on borrowings under the revolving line of credit, as well as loan advances thereunder, accrues at a rate, at the Company's election at the time of borrowing, equal to (i) the secured overnight financing rate as administered by the Federal Reserve Bank of New York plus 2.00% or (ii) 1.00% plus the alternate base rate, as defined in the Credit Facility. During the 39-week period ended September 24, 2023, the Company borrowed and repaid \$7.5 million under the revolving line of credit. As of September 24, 2023, there were no outstanding amounts under the revolving line of credit.

The Credit Facility is secured by all of the Company's assets (other than real property and certain other property excluded pursuant to the terms of the Credit Facility) and requires the Company to maintain three financial covenants: a fixed charge coverage ratio, a leverage ratio and a minimum tangible net worth requirement. The Credit Facility also contains various covenants relating to limitations on indebtedness, acquisitions, mergers, consolidations and the sale of properties and liens. As a result of the limitations contained in the Credit Facility, certain of the net assets on the Company's consolidated balance sheet as of September 24, 2023 are restricted in use. Vital Farms' wholly owned subsidiaries are non-operating and have no restricted net assets within the meaning of Rule 4-08(e)(3) or Rule 12-04 of Regulation S-X. The Credit Facility also contains other customary covenants, representations and events of default. As of September 24, 2023, the Company was in compliance with all covenants under the Credit Facility.

During the 13-week periods ended September 24, 2023 and September 25, 2022, the Company did not recognize interest expense related to draws on the revolving line of credit. During the 39-week periods ended September 24, 2023 and September 25, 2022, the Company recognized interest expense related to draws on the revolving line of credit of \$7 and \$0, respectively.

Note 14. Common Stock

As of September 24, 2023, the Company's amended and restated certificate of incorporation authorized the Company to issue 310,000,000 shares of common stock, par value \$0.0001 per share, of which 41,574,449 shares were issued and outstanding.

The voting, dividend and liquidation rights of the holders of the Company's common stock are subject to and qualified by the rights, powers and preferences of the holders of the preferred stock, if any. Each share of the Company's common stock is entitled to one vote on all matters submitted to a vote of the Company's stockholders. Holders of the Company's common stock are entitled to receive dividends as may be declared by the Company's board of directors, if any, subject to the preferential dividend rights of preferred stock, if any. No cash dividends were declared or paid during the periods presented.

As of each balance sheet date, the Company had reserved shares of common stock for issuance in connection with the following:

	September 24, 2023	December 25, 2022
Options to purchase common stock	4,285,419	4,634,205
Restricted stock units	574,083	505,504
Shares available for grant under the 2020 Equity Incentive Plan and 2020 Employee Stock Purchase Plan	13,020,151	11,503,459
Total	<u>17,879,653</u>	<u>16,643,168</u>

Note 15. Stock-Based Compensation

The Company measures compensation expense for all stock-based awards based on the estimated fair values on the date of the grant. Stock options generally vest ratably over three years from the date of grant and expire 10 years from the date of grant. Restricted stock awards generally vest ratably over three years from the date of grant and contain no other service or performance conditions. The Company's policy is to recognize stock-based compensation expense on a straight-line basis over the requisite service or vesting period. Forfeitures for stock options and restricted stock awards are recognized as they occur.

The Company recognized stock-based compensation expense in the condensed consolidated statements of operations for the periods presented:

	13-Weeks Ended		39-Weeks Ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Cost of goods sold	\$ 61	\$ 56	\$ 194	\$ 146
Selling, general and administrative expense	1,754	1,513	5,308	4,352
Total	<u>\$ 1,815</u>	<u>\$ 1,569</u>	<u>\$ 5,502</u>	<u>\$ 4,498</u>

Stock Option Activity

The following table summarizes the Company's stock option activity since December 25, 2022:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of December 25, 2022	4,634,205	\$ 9.35		\$ 38,522
Granted	514,920	\$ 15.03		
Exercised	(642,500)	\$ 0.75		\$ 8,169
Cancelled/Forfeited	(221,206)	\$ 21.59		\$ 61
Outstanding as of September 24, 2023	4,285,419	\$ 10.69	6.0	\$ 18,877
Options exercisable as of September 24, 2023	3,135,091	\$ 9.17	5.3	\$ 17,107
Options vested and expected to vest as of September 24, 2023	4,285,419	\$ 10.69	6.0	\$ 18,877

The fair value of stock options vested during the 13-week periods ended September 24, 2023 and September 25, 2022 was \$1,633 and \$2,261, respectively. The fair value of stock options vested during the 39-week periods ended September 24, 2023 and September 25, 2022 was \$2,905 and \$4,471, respectively. As of September 24, 2023, total unrecognized stock-based compensation expense related to unvested stock options was \$4,300, which is expected to be recognized over a weighted-average period of 1.77 years.

Restricted Stock Unit Activity

The following table summarizes the Company's restricted stock units ("RSU") activity since December 25, 2022:

	Number of RSUs	Weighted-Average Grant Date Fair Value
Unvested as of December 25, 2022	505,504	\$ 13.58
Granted	348,510	\$ 15.09
Vested ¹	(216,150)	\$ 14.12
Forfeited	(63,781)	\$ 14.02
Unvested as of September 24, 2023	574,083	\$ 14.26

¹ Includes 42,202 shares of common stock withheld to cover taxes on the release of vested RSUs, which became available for future grants pursuant to the 2020 Equity Incentive Plan.

The fair value of RSU shares vested during the 13-week periods ended September 24, 2023 and September 25, 2022 was \$113 and \$44, respectively. The fair value of RSU shares vested during the 39-week periods ended September 24, 2023 and September 25, 2022 was \$3,026 and \$1,541, respectively. As of September 24, 2023, total unrecognized stock-based compensation expense related to unvested stock options and the RSUs was \$6,311, which is expected to be recognized over a weighted-average period of 1.97 years.

2020 Equity Incentive Plan: In July 2020, the Company's board of directors adopted its 2020 Equity Incentive Plan ("2020 Incentive Plan"), which was subsequently approved by the Company's stockholders and became effective on July 30, 2020. Initially, the maximum number of the Company's common stock that may be issued under the 2020 Incentive Plan was 8,595,871 shares. The 2020 Incentive Plan provides that the number of shares reserved and available for issuance under the 2020 Incentive Plan will automatically increase each January 1, beginning on January 1, 2021 and ending on (and including) January 1, 2030, by an amount equal to 4% of the outstanding number of shares of common stock on the immediately preceding December 31 or such lesser number of shares as determined by the Company's board of directors. As of September 24, 2023, 10,922,624 shares were available for future grants of the Company's common stock, which includes 1,629,884 shares of stock that were automatically added to the available reserve on January 1, 2023. Awards issued under the 2020 Incentive Plan generally have a three-year ratable vesting period beginning on the date of grant.

Employee Stock Purchase Plan: In July 2020, the Company’s board of directors adopted the 2020 Employee Stock Purchase Plan (“2020 ESPP”), which was subsequently approved by the Company’s stockholders and became effective on July 30, 2020. The 2020 ESPP authorizes the initial issuance of up to 900,000 shares of the Company’s common stock to eligible employees of the Company or, as designated by the Company’s board of directors, employees of a related company. The 2020 ESPP provides that the number of shares reserved and available for issuance under the 2020 ESPP will automatically increase each January 1, beginning on January 1, 2021 and ending on (and including) January 1, 2030, by an amount equal to the lesser of (i) 1% of the outstanding number of shares of common stock on the immediately preceding December 31 and (ii) 900,000, or such lesser number of shares as determined by the Company’s board of directors. As of September 24, 2023, 2,097,527 shares of the Company’s common stock were available for future issuance, which includes 407,471 shares of common stock that were automatically added to the available reserve on January 1, 2023. The Company’s board of directors authorizes six-month offering periods, with the most recent beginning on May 16, 2023.

Note 16. Income Taxes

The Company’s effective tax rate for the 13-week periods ended September 24, 2023 and September 25, 2022 was approximately 11% and 67%, respectively. The Company’s effective tax rate for the 39-week periods ended September 24, 2023 and September 25, 2022 was approximately 19% and (27)%, respectively. The Company’s effective tax rate for the 13-week period ended September 24, 2023 differs from the statutory rate due primarily to a discrete tax benefit related to the exercise of non-qualified stock options. The Company’s effective tax rate for the 13-week period ended September 25, 2022 differs from the statutory rate due primarily to permanent differences related to incentive stock options and the impact of compensation deduction limitations under Internal Revenue Code Section 162(m).

For interim periods, our income tax expense and resulting effective tax rate are based upon an estimated annual effective tax rate adjusted for the effects of items required to be treated as discrete to the period, including changes in tax laws, changes in estimated exposures for uncertain tax positions, and other items. The Company’s estimated annual effective tax rate differs from the federal statutory rate of 21% due to state taxes, permanent differences related to incentive stock options and the impact of compensation deduction limitations under Internal Revenue Code Section 162(m).

Note 17. Net Income (Loss) Per Share

Basic and diluted net income (loss) per share attributable to Vital Farms, Inc. common stockholders were calculated as follows:

	13-Weeks Ended		39-Weeks Ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Numerator:				
Net income (loss)	\$ 4,523	\$ 711	\$ 18,356	\$ (635)
Less: Net loss attributable to noncontrolling interests	—	(12)	—	(21)
Net income (loss) attributable to Vital Farms, Inc. stockholders’ — basic and diluted	<u>\$ 4,523</u>	<u>\$ 723</u>	<u>\$ 18,356</u>	<u>\$ (614)</u>
Denominator:				
Weighted average common shares outstanding — basic	41,375,008	40,695,014	41,037,778	40,618,736
Weighted average effect of potentially dilutive securities:				
Effect of potentially dilutive stock options	1,724,406	2,130,963	2,133,359	—
Effect of potentially dilutive restricted stock units	33,359	49,486	116,781	—
Effect of potentially dilutive common stock issuable pursuant to the ESPP	2,806	4,355	11,980	—
Weighted average common shares outstanding — diluted	<u>43,135,579</u>	<u>42,879,818</u>	<u>43,299,898</u>	<u>40,618,736</u>
Net income (loss) per share attributable to Vital Farms, Inc. stockholders				
Basic	<u>\$ 0.11</u>	<u>\$ 0.02</u>	<u>\$ 0.45</u>	<u>\$ (0.02)</u>
Diluted	<u>\$ 0.10</u>	<u>\$ 0.02</u>	<u>\$ 0.42</u>	<u>\$ (0.02)</u>

The Company excluded the following shares of common stock, outstanding at each period end, from the computation of diluted net income (loss) per share attributable to Vital Farms, Inc. common stockholders for the periods indicated because including them would have had an anti-dilutive effect:

	13-Weeks Ended		39-Weeks Ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Options to purchase common stock	434	415	14,287	2,251,142
Unvested restricted stock	47,789	41,856	8,362	41,718
Common stock issuable pursuant to the ESPP	—	—	—	11,088
	<u>48,223</u>	<u>42,271</u>	<u>22,649</u>	<u>2,303,948</u>

Note 18. Accumulated Other Comprehensive Income (Loss)

The amounts reclassified from accumulated other comprehensive income (loss) (“AOCI”) to the unaudited consolidated statements of operations were as follows (in thousands):

AOCI Component	Statement of Operations Classification	Amounts Reclassified from AOCI	
		13-Week Period Ended	
		September 24, 2023	September 25, 2022
Losses on available-for-sale securities	Other expense, net	\$ 53	\$ 96
	Total before tax	53	96
	Tax benefit	(14)	(23)
	Net of tax	<u>\$ 39</u>	<u>\$ 73</u>

AOCI Component	Statement of Operations Classification	Amounts Reclassified from AOCI	
		39-Week Period Ended	
		September 24, 2023	September 25, 2022
Losses on available-for-sale securities	Other expense, net	\$ 182	\$ 166
	Total before tax	182	166
	Tax benefit	(46)	(39)
	Net of tax	<u>\$ 136</u>	<u>\$ 127</u>

The gross amount and related tax (expense) benefit recorded in, and associated with, each component of other comprehensive income (loss) were as follows (in thousands):

	13-Weeks Ended					
	September 24, 2023			September 25, 2022		
	Before Tax	Tax	After Tax	Before Tax	Tax	After Tax
Available-for-sale debt securities:						
Unrealized net holding gain (loss)	\$ 271	\$ (71)	\$ 200	\$ (562)	\$ 133	\$ (429)
Amounts reclassified for realized losses to earnings	53	(14)	39	96	(23)	73
Total other comprehensive income (loss)	<u>\$ 324</u>	<u>\$ (85)</u>	<u>\$ 239</u>	<u>\$ (466)</u>	<u>\$ 110</u>	<u>\$ (356)</u>

39-Weeks Ended

	September 24, 2023			September 25, 2022		
	Before Tax	Tax	After Tax	Before Tax	Tax	After Tax
Available-for-sale debt securities:						
Unrealized net holding gain (loss)	\$ 916	\$ (230)	\$ 686	\$ (2,159)	\$ 510	\$ (1,649)
Amounts reclassified for realized losses to earnings	182	(46)	136	166	(39)	127
Total other comprehensive income (loss)	<u>\$ 1,098</u>	<u>\$ (276)</u>	<u>\$ 822</u>	<u>\$ (1,993)</u>	<u>\$ 471</u>	<u>\$ (1,522)</u>

Note 19. Commitments and Contingencies

Supplier Contracts: The Company purchases its egg inventories under long-term supply contracts with farms. Purchase commitments contained in these arrangements are variable dependent on the quantity of eggs produced by the farms. Accordingly, there are no estimable future purchase commitments associated with these supplier contracts and there are no minimum payments associated with these long-term supply contracts. The Company records the total cost of eggs into inventory, and they are expensed to cost of goods sold when the associated eggs are sold to customers and are also reported as part of our variable lease cost.

Warehouse Agreement: The Company expects to execute a warehouse storage agreement during and commencing in the fourth quarter of fiscal year 2023. Future undiscounted minimum payments contained in this agreement are approximately \$8.0 million over a term of 39 months.

Indemnification Agreements: In the ordinary course of business, the Company may provide indemnification of varying scope and terms to vendors, lessors, business partners and other parties with respect to certain matters including, but not limited to, losses arising out of breach of such agreements or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with members of its board of directors and its executive officers that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is, in many cases, unlimited. As of September 24, 2023, the Company has not incurred any material costs as a result of such indemnification agreements.

Litigation: The Company is subject to various claims and contingencies that are in the scope of ordinary and routine litigation incidental to its business, including those related to regulation, litigation, business transactions, employee-related matters and taxes, among others. When the Company becomes aware of a claim or potential claim, the likelihood of any loss or exposure is assessed. Based on these assessments and estimates, we may establish reserves, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from our assessments and estimates.

On May 20, 2021, the Company and certain of its current and former officers were named as defendants in a class action complaint captioned *Nicholas A. Usler et al. v. Vital Farms, Inc. et al.* in the United States District Court for the Western District of Texas. The plaintiffs alleged false advertising claims on behalf of themselves and a putative class of alleged consumers of the Company's eggs. The named officers of the Company were subsequently dismissed as defendants in this matter. In September 2023, the parties engaged in mediation to discuss potential settlement of remaining claims, but no agreement was reached and the lawsuit is ongoing. The Company believes the claims are without merit and is vigorously defending itself in this matter. Given the uncertainty of the litigation, the stage of the case, and the legal standards that must be met for, among other things, class certification and success on the merits, the Company is unable to reasonably estimate the possible loss or range of loss, if any, that may result from the claim.

Although the Company maintains insurance for certain potential liabilities, such insurance does not cover all types and amounts of potential liabilities and is subject to various exclusions and caps on amounts recoverable. Even if we believe a claim is covered by insurance, insurers may dispute our entitlement to recovery for a variety of potential reasons, which may affect the timing and, if the insurers prevail, the amount of our recovery. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, the Company records a liability for the loss. If the loss is not probable or the amount of the loss cannot be reasonably estimated, the Company discloses the claim if the likelihood of a potential loss is reasonably possible.

Note 20. Related Party Transactions

Ovabrite, Inc.: Ovabrite, Inc., a Delaware corporation ("Ovabrite"), has been deemed a related party because its founders were stockholders of the Company, with the majority stockholder in Ovabrite also serving as the Company's executive chairperson and member of the Company's board of directors. Since Ovabrite's incorporation in November 2016, the Company has been deemed to have had a variable interest in Ovabrite, and Ovabrite has been deemed to have been a variable interest entity, of which the Company has been the primary beneficiary. Accordingly, the Company has consolidated the results of Ovabrite since November 2016. All significant intercompany transactions between the Company and Ovabrite have been eliminated in consolidation.

Effective August 30, 2022, Ovabrite's board of directors and the holders of the majority of its outstanding capital stock consented to dissolving the entity, and a Certificate of Dissolution was filed with the Delaware Secretary of State. As of September 24, 2023, Ovabrite had completed its business activities and liquidated its remaining assets. For the 13-week and 39-week periods ended September 24, 2023 and September 25, 2022, the results of operations of the Ovabrite entity were immaterial.

Sandpebble Builders Preconstruction, Inc.: The Company utilizes Sandpebble Builders Preconstruction, Inc. and Sandpebble South, Inc. (collectively “Sandpebble”) for project management and related services associated with the construction and expansion of our egg processing facilities, including site selection, project management and related services for our potential new egg packing facility. Victor Canseco, the owner and principal of Sandpebble, is the father of Russell Diez-Canseco, the Company’s President and Chief Executive Officer and a member of the Company’s board of directors. In connection with the services described above, the Company paid Sandpebble \$158 and \$430 during the 13-week periods ended September 24, 2023 and September 25, 2022, respectively, and \$413 and \$801 during the 39-week periods ended September 24, 2023 and September 25, 2022, respectively. Amounts paid to Sandpebble are included in property, plant and equipment, net and selling, general and administrative costs. As of September 24, 2023 and September 25, 2022, amounts owed to Sandpebble were \$347 and \$745, respectively, and are included in accrued liabilities.

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

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in Part II, Item 1A, “Risk Factors,” and “Special Note Regarding Forward-Looking Statements” included elsewhere in this Quarterly Report. The following information should be read in conjunction with the unaudited financial information and the notes thereto included in this Quarterly Report and the audited financial information and the notes thereto included in our Annual Report.

Overview

Our mission is to bring ethical food to the table, and we are disrupting the U.S. food system by developing a framework that challenges the norms of the incumbent food model, allowing us to bring high-quality products from our network of family farms to a national audience. This framework has enabled us to become the leading U.S. brand of pasture-raised eggs and the second-largest U.S. egg brand by retail dollar sales. Our ethics are exemplified by our focus on animal welfare and sustainable farming practices. We believe our standards produce happy hens with varied diets, which produce better eggs. There is a seismic shift in consumer demand for natural, traceable, clean-label, great-tasting and nutritious foods. Supported by a steadfast adherence to the values on which we were founded, we have designed our brand and products to appeal to this consumer movement.

Our purpose is rooted in a commitment to Conscious Capitalism, which prioritizes the long-term benefits of each of our stakeholders (farmers and suppliers, customers and consumers, communities and the environment, crew members and stockholders). We make decisions based on what is sustainable for all our stakeholders. Our collective sustainable business practices will enable us to fulfill our purpose of improving the lives of people, animals, and the planet through food, now and long into the future. For us, it is not about short-term outcomes or a trade-off between purpose and profit. We are fierce business competitors who believe that prioritizing the long-term viability of all stakeholders will produce stronger outcomes, for everyone, over time. These principles guide our day-to-day operations and, we believe, help us deliver a more sustainable and successful business. Our approach has been validated by our financial performance and our January 2022 recertification as a Certified B Corporation, a certification reserved for businesses that balance profit and purpose to meet the highest verified standards of social and environmental performance, public transparency and legal accountability.

We source our products from a network of over 300 family farms. We have strategically designed our supply chain to ensure high production standards and optimal year-round operation. We are motivated by the positive impact we have on rural communities and enjoy a strong relationship and reputation with our network of farmers.

We primarily work with our farms pursuant to buy-sell contracts. Under these arrangements, the farmer is responsible for all of the working capital and investments required to produce the eggs and manage the farm, including purchasing the birds and feed supply. During the last quarter of fiscal 2023 and likely into fiscal 2024, as a result of increasing construction costs for our new farms, we expect to incur incremental farm recruitment costs that will be paid in advance of these farms beginning to produce eggs. These costs are expected to be recognized over the term of the related buy-sell contracts with the new farms, which are generally four to five years. We believe the unfavorable impact to our working capital resulting from these up-front costs could range from \$12 million to \$14 million during fiscal 2024. The impact to fiscal 2023 working capital is expected to be immaterial and the impact to our gross margin is also expected to be immaterial during the term of these agreements. We are contractually obligated to purchase all of the eggs produced by the farmer during the term of the contract at an agreed-upon price that depends upon pallet weight and is adjusted quarterly for changes in feed cost.

We believe we are a strategic and valuable partner to retailers. We have continued to command premium prices for our products, including our shell eggs. Our loyal and growing consumer base has fueled the expansion of our brand from the natural channel to the mainstream channel. We believe the success of our brand demonstrates that consumers are demanding premium products that meet a higher ethical standard of food production. We have a strong presence at The Kroger Co., or Kroger, Sprouts Farmers Market, or Sprouts, Target Corporation and Whole Foods Market, Inc., or Whole Foods, and we also sell our products at Albertsons Companies, Inc., Publix Super Markets, Inc. and Walmart Inc. We currently offer 23 retail stock keeping units, or SKUs, through a multi-channel retail distribution network. We believe we have significant room for growth within the retail and foodservice channels through growing brand awareness, gaining additional points of distribution and new product innovation.

Our shell eggs are collected from farmers by a third-party freight carrier and placed in cold storage until we pack them for shipping to our customers at our state-of-the-art shell egg processing facility, Egg Central Station. Egg Central Station is approximately 153,000 square feet and utilizes highly automated equipment to grade and package our shell egg products. Egg Central Station is capable of packing approximately six million eggs per day and has achieved Safe Quality Food, or SQF, Good rating, the highest level of such certification from the Global Food Safety Initiative.

Our products are distributed through a broker-distributor-retailer network whereby brokers represent our products to distributors and retailers who will in turn sell our products to consumers. We serve the majority of natural channel customers through food distributors, which purchase, store, sell and deliver our products to customers. We serve mainstream retailers by arranging for delivery of our products directly through their distribution centers. We also leverage distributor relationships to fulfill orders for certain independent grocers and other customers.

We have experienced consistent sales growth. We had net revenue of \$110.4 million and \$92.0 million, net income of \$4.5 million and \$0.7 million, and Adjusted EBITDA of \$9.3 million and \$5.2 million in the 13-week periods ended September 24, 2023 and September 25, 2022, respectively. We had net revenue \$336.0 million and \$252.0 million, net income of \$18.4 million and net loss of \$0.6 million, and Adjusted EBITDA of \$34.5 million and \$9.4 million in the 39-week periods ended September 24, 2023 and September 25, 2022. Adjusted EBITDA is a non-GAAP financial measure. See the section titled “—Non-GAAP Financial Measure—Adjusted EBITDA” below for the definition of Adjusted EBITDA, as well as a reconciliation of Adjusted EBITDA to net income, the most directly comparable financial measure stated in accordance with GAAP.

Known Trends, Events and Uncertainties

Highly Pathogenic Avian Influenza

Since the initial outbreaks of highly pathogenic avian influenza (“HPAI”) in early 2022, we have been closely following the progression of the virus and working with our farmers, veterinarians, government health officials and animal welfare auditors to ensure that our flocks are kept as safe as possible. To date, we have experienced outbreaks at two of our farms, one located in Missouri and one in Tennessee. While we have not experienced material disruptions to our egg supply due to HPAI outbreaks, if a substantial portion of our farms or production facilities were affected, this could materially and negatively affect our supply chain and operating results. Additionally, HPAI has at times resulted in supply shortages and price increases across the egg market. We are confident in the measures we have taken to reduce the risk of HPAI on our farms and production facilities, as well as our ability to mitigate impacts on supply. However, given continued uncertainty about future outbreaks and governmental responses to such outbreaks, we cannot predict the ultimate impact that HPAI will have on our business.

Inflation and Economic Uncertainties

The current inflationary environment may also affect our business and corresponding financial position and cash flows. Inflationary factors, such as increases in the cost of materials and supplies, interest rates and overhead costs, may adversely affect our operating results. Rising interest rates also present a recent challenge impacting the U.S. economy and could make it more difficult for us to obtain traditional financing on acceptable terms, if at all, in the future. Additionally, some economic observers suggest that we should expect a higher recession risk to continue over the next year, which, together with the foregoing, could result in further economic uncertainty and volatility in the capital markets in the near term, and could negatively affect our operations. Furthermore, such economic conditions have produced downward pressure on share prices. We have experienced and may continue to experience increases in our operating costs, including our labor costs and research and development costs, due to supply chain constraints, consequences associated with COVID-19 and the ongoing war between Russia and Ukraine and other geopolitical tensions, and employee availability and wage increases, which may result in additional stress on the Company’s working capital resources. We work closely with our farmers, suppliers and third-party manufacturers to manage our supply chain activities and mitigate potential disruptions to our product supplies as a result of supply chain disruptions associated with such uncertainties. We currently expect to have an adequate supply of our products, packaging, and freight through fiscal 2023; however, while we are currently exploring additional sources of butter supply, recent volatility in the markets for raw materials could affect supply of our butter products in late fiscal 2023 and into fiscal 2024.

Liquidity and Capital Resources Overview

With cash, cash equivalents and marketable securities of \$96.1 million as of September 24, 2023 and \$20.0 million available under our credit facility agreement with PNC Bank, National Association, or the Credit Facility, we anticipate having sufficient liquidity to make investments in our business to support our long-term growth strategy. We expect that our cash, cash equivalents and marketable securities as of September 24, 2023, together with cash provided by our operating activities and availability of borrowings under our Credit Facility, will be sufficient to fund our operating expenses for at least the next 12 months and to make investments in our business in support of our long-term growth strategy.

Our future capital requirements will depend on many factors, including our pace of new and existing customer growth, our investments in innovation, our investments in acquisitions or other growth opportunities, our investments in partnerships and unexplored channels and ongoing costs associated with expansions of our production capacity. We may be required to seek additional equity or debt financing. However, a significant disruption of global financial markets (including a disruption due to public health pandemics, geopolitical tensions and wars, inflation or other factors) may result in our inability to access additional capital, which could in the future negatively affect our operations. In the event that we require additional financing, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in continued innovation and product expansion, we may not be able to compete successfully, which would harm our business, operations and results of operations. For additional information, see the section titled “Liquidity and Capital Resources” below.

Our Fiscal Year

We report on a 52-53-week fiscal year, ending on the last Sunday in December, effective beginning with the first quarter of fiscal 2018. In a 52-53-week fiscal year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week fiscal year is added to the fourth quarter, making such quarter consist of 14 weeks. Our first 53-week fiscal year will be this year, fiscal 2023, which began on December 26, 2022 and which we expect to end on December 31, 2023. See “Nature of the Business and Basis of Presentation” in Note 1 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report for additional details related to our fiscal calendar.

Key Factors Affecting Our Business

We believe that the growth of our business and our future success are dependent upon many factors. While each of these factors presents significant opportunities for us, they also pose important challenges that we must successfully address to enable us to sustain the growth of our business and improve our results of operations.

Expand Household Penetration

We have positioned our brand to capitalize on growing consumer interest in natural, clean-label, traceable, ethical, great-tasting and nutritious foods. We believe there is substantial opportunity to grow our consumer base and increase the velocity at which households purchase our products. U.S. household penetration for the shell egg category is approximately 98%, while the household penetration for our shell eggs is approximately 7%. We intend to increase household penetration by continuing to invest significantly in sales and marketing to educate consumers about our brand, our values and the premium quality of our products. We believe these efforts will educate consumers on the attractive attributes of our products, generate further demand for our products and ultimately expand our consumer base. Our ability to attract new consumers will depend, among other things, on the perceived value and quality of our products, the offerings of our competitors and the effectiveness of our marketing efforts. Our performance depends significantly on factors that may affect the level and pattern of consumer spending in the U.S. natural food market in which we operate. Such factors include consumer preference, consumer confidence, consumer income, consumer perception of the safety and quality of our products and shifts in the perceived value for our products relative to alternatives.

Grow Within the Retail Channel

We believe that our ability to increase the number of customers that sell our products to consumers is an indicator of our market penetration and our future business opportunities. We define our customers as the entities that sell our products to consumers. With certain of our retail customers, like Whole Foods, we sell our products through distributors. We are not able to precisely attribute our net revenue to a specific retailer for products sold through such channels. We rely on third-party data to calculate the portion of retail sales attributable to such retailers, but this data is inherently imprecise because it is based on gross sales generated by our products sold at retailers, without accounting for price concessions, promotional activities or chargebacks, and because it measures retail sales for only the portion of our retailers serviced through distributors. Based on this third-party data and internal analysis, Whole Foods accounted for approximately 22% and 22% of our retail sales for the 13-week periods ended September 24, 2023 and September 25, 2022, respectively and 23% and 24% for the 39-week periods ended September 24, 2023 and September 25, 2022, respectively.

As of September 24, 2023, there were over 24,000 stores selling our products. We expect the retail channel to be our largest source of net revenue for the foreseeable future. By capturing greater shelf space, driving higher product velocities and increasing our SKU count, we believe there is meaningful runway for further growth with existing retail customers. Additionally, we believe there is significant opportunity to gain incremental stores from existing customers as well as by adding new retail customers. We also believe there is significant further long-term opportunity in additional distribution channels, including the convenience, drugstore, club, military and international markets. Our ability to execute on this strategy will increase our opportunities for incremental sales to consumers, and we also believe this growth will allow for margin expansion. To accomplish these objectives, we intend to continue leveraging consumer awareness of and demand for our brand, offering targeted sales incentives to our customers and utilizing customer-specific marketing tactics. Our ability to grow within the retail channel will depend on a number of factors, such as our customers' satisfaction with the sales, product velocities and profitability of our products.

Expand Footprint Across Foodservice

We believe there is significant demand for our products in the foodservice channel since we offer versatile ingredients with high menu penetrations across all commercial and non-commercial operator segments. We see considerable opportunity to continue to grow the channel in the medium- to long-term with our two-pronged sales approach to values-aligned foodservice operators and their distributors. We are working with Waypoint, a foodservice sales and marketing agency in the consumer-packaged goods industry, to increase our category share in broad-line distribution and to get on national and regional restaurant chain menus.

We believe that most U.S. consumers' food preferences are driven primarily by what they encounter on restaurant menus, so we are also leveraging foodservice as a critical consumer touchpoint to drive brand awareness and build trust. We are investing in co-marketing to reach new households. We believe co-branding is mutually beneficial to us and foodservice operators as we believe it helps to differentiate their brands, enhance their perceived customer value and drive repeat traffic.

A multi-unit example from our successful foodservice program is True Food Kitchen, an award-winning restaurant brand and a pioneer of wellness-driven dining with locations across the United States, that shares our purpose of improving the lives of people, animals and the planet through food. We have launched similar relationships with national and regional chain foodservice customers across the United States.

Expand Our Product Offerings

We intend to continue to strengthen our product offerings by investing in innovation in new and existing categories. We have a history of product introductions and intend to continue to innovate by introducing new products from time to time. Eggs and egg-related products generated \$103.9 million, or approximately 94%, of net revenue in the 13-week period ended September 24, 2023. Eggs and egg-related products generated \$318.5 million, or approximately 95%, of net revenue in the 39-week period ended September 24, 2023. We expect eggs and egg-related products to be our largest source of net revenue for the foreseeable future. We believe that investments in innovation will contribute to our long-term growth, including by reinforcing our efforts to increase household penetration. Our ability to successfully develop, market and sell new products will depend on a variety of factors, including the availability of capital to invest in innovation, as well as changing consumer preferences and demand for food products.

Key Components of Results of Operations

Net Revenue

We generate net revenue primarily from sales of our products, including eggs and butter, to our customers, which include natural retailers, mainstream retailers and foodservice customers. We sell our products to customers on a purchase-order basis. We serve the majority of our natural channel customers and certain independent grocers and other customers through food distributors, which purchase, store, sell and deliver our products to these customers.

We periodically offer sales incentives to our customers, including rebates, temporary price reductions, off-invoice discounts, retailer advertisements, product coupons and other trade activities. We record a provision for sales incentives at the later of the date at which the related revenue is recognized or when the sales incentive is offered. At the end of each accounting period, we recognize a liability for an estimated promotional allowance reserve. We periodically provide credits or discounts to our customers in the event that products do not conform to customer expectations upon delivery or expiration at a customer's site. We treat these credits and discounts as a reduction of the sales price of the related transaction at the time of sale. We anticipate that these promotional activities, credits and discounts could impact our net revenue and that changes in such activities could impact period-over-period results.

Our shell eggs are sold to consumers at a premium price point, and when prices for commodity shell eggs fall relative to the price of our shell eggs (including due to any price increases we may implement), price-sensitive consumers may choose to purchase commodity shell eggs offered by our competitors instead of our eggs. As a result, low commodity shell egg prices may adversely affect our net revenue. For example, we increased prices on certain of our products in January 2022, May 2022 and January 2023. While we have not seen significant decreases in volume due to previous price increases, if we further increase prices to offset higher commodity prices or other costs, we could experience lower demand for our products, decreased ability to attract new customers and lower sales volumes. Net revenue may also vary from period to period depending on the purchase orders we receive, the volume and mix of our products sold and the channels through which our products are sold.

Selling, General and Administrative

Selling, general and administrative expenses consist primarily of broker and contractor fees for sales and marketing, as well as personnel costs for sales and marketing, finance, human resources and other administrative functions, including salaries, benefits, bonuses, stock-based compensation expense and sales commissions. Selling, general and administrative expenses also include advertising and digital media costs, agency fees, travel and entertainment costs, and costs associated with consumer promotions, product samples, sales aids incurred to acquire new customers, retain existing customers and build our brand awareness, overhead costs for facilities, including associated depreciation and amortization expenses, and information technology-related expenses.

Shipping and Distribution

Shipping and distribution expenses consist primarily of costs related to third-party freight for our products. Even though shipping and distribution expenses have decreased in absolute dollars in the short-term, we expect shipping and distribution expenses to increase in absolute dollars in the medium-to-long term, as we continue to scale our business.

Results of Operations

The results of operations data for the 13-week and 39-week periods ended September 24, 2023 and September 25, 2022 have been derived from the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.

Comparison of the 13-Week Periods Ended September 24, 2023 and September 25, 2022

The following table sets forth our consolidated statement of operations data expressed as a percentage of net revenue for the periods presented:

	13-Weeks Ended			
	September 24, 2023		September 25, 2022	
	Amount	% of Revenue	Amount	% of Revenue
	(dollars in thousands)			
Net revenue	\$ 110,429	100 %	\$ 92,040	100 %
Cost of goods sold ⁽¹⁾	73,764	67 %	62,549	68 %
Gross profit	36,665	33 %	29,491	32 %
Operating expenses:				
Selling, general and administrative ⁽¹⁾	25,081	23 %	20,561	22 %
Shipping and distribution	6,355	6 %	6,906	8 %
Total operating expenses	31,436	28 %	27,467	30 %
Income from operations	5,229	5 %	2,024	2 %
Other (expense) income, net:				
Interest expense	(238)	—	(12)	—
Interest income	707	1 %	312	—
Other expense, net	(642)	(1)%	(148)	—
Total other (expense) income, net	(173)	—	152	—
Net income before income taxes	5,056	5 %	2,176	2 %
Income tax provision	533	—	1,465	2 %
Net income	4,523	4 %	711	1 %
Less: Net loss attributable to noncontrolling interests	—	—	(12)	—
Net income attributable to Vital Farms, Inc. common stockholders	\$ 4,523	4 %	\$ 723	1 %

(1)Includes stock-based compensation expense of \$1,754 and \$1,513 in selling, general and administrative for the 13-week periods ended September 24, 2023 and September 25, 2022, respectively, and \$61 and \$56 in cost of goods sold for the 13-week periods then ended, respectively.

Net Revenue

	13-Weeks Ended		\$ Change	% Change
	September 24, 2023	September 25, 2022		
	(in thousands)			
Net revenue	\$ 110,429	\$ 92,040	\$ 18,389	20%

The increase in net revenue of \$18.4 million, or 20%, was primarily driven by volume-related increases of \$12.2 million and price-related increases of \$6.2 million. The volume favorability was primarily driven by increases at both new and existing customers. Net revenue from sales through our retail channel was \$104.8 million and \$89.1 million for the 13-week periods ended September 24, 2023 and September 25, 2022, respectively.

Gross Profit and Gross Margin

	13-Weeks Ended		\$ Change	% Change
	September 24, 2023	September 25, 2022		
	(in thousands)			
Gross profit	\$ 36,665	\$ 29,491	\$ 7,174	24%
Gross margin	33%	32%		

The increase in gross profit of \$7.2 million, or 24%, was driven by higher net revenue generated during the period. The increase in gross margin during the 13-week period ended September 24, 2023 compared to the corresponding period in the prior year was primarily driven by volume increases, in addition to price increases across the entire portfolio in January 2023. The price increases offset an increase in input costs (inclusive of commodity impacts) across our shell egg business as well as higher packaging costs.

Operating Expenses

Selling, General and Administrative

	13-Weeks Ended		\$ Change	% Change
	September 24, 2023	September 25, 2022		
	(in thousands)			
Selling, general and administrative	\$ 25,081	\$ 20,561	\$ 4,520	22%
Percentage of net revenue	23%	22%		

The increase in selling, general and administrative expenses of \$4.5 million, or 22%, was primarily driven by:

- an increase of \$2.1 million in marketing-related expenses; and
- an increase of \$1.9 million in employee-related costs, including stock-based compensation, driven by an overall increase in employee headcount to support our operations.

Shipping and Distribution

	13-Weeks Ended		<u>\$ Change</u>	<u>% Change</u>
	<u>September 24, 2023</u>	<u>September 25, 2022</u>		
	(in thousands)			
Shipping and distribution	\$ 6,355	\$ 6,906	\$ (551)	(8)%
Percentage of net revenue	6%	8%		

The decrease in shipping and distribution costs of \$551,000, or 8%, was driven by favorable freight rates and internal operational efficiency, partially offset by higher sales volumes.

Interest Income

	13-Weeks Ended		<u>\$ Change</u>	<u>% Change</u>
	<u>September 24, 2023</u>	<u>September 25, 2022</u>		
	(in thousands)			
Interest income	\$ 707	\$ 312	\$ 395	127%

The increase of \$395,000 in interest income, or 127%, was primarily driven by higher interest income on our available-for-sale securities portfolio.

Other Expense, net

	13-Weeks Ended		<u>\$ Change</u>	<u>% Change</u>
	<u>September 24, 2023</u>	<u>September 25, 2022</u>		
	(in thousands)			
Other expense, net	\$ (642)	\$ (148)	\$ (494)	334%

The change in other expense, net of \$494,000 was primarily driven by losses on our commodity derivative instruments during the 13-week period ended September 24, 2023.

Income Tax Provision

	13-Weeks Ended		<u>\$ Change</u>	<u>% Change</u>
	<u>September 24, 2023</u>	<u>September 25, 2022</u>		
	(in thousands)			
Income tax provision	\$ 533	\$ 1,465	\$ (932)	(64)%

The decrease in the income tax provision of \$932,000, or 64%, was primarily related to the tax benefit of a non-qualified stock option exercise that occurred during the 13-week period ended September 24, 2023.

Comparison of the 39-Week Periods Ended September 24, 2023 and September 25, 2022

The following table sets forth our consolidated statement of operations data expressed as a percentage of net revenue for the periods presented:

	39-Weeks Ended			
	September 24, 2023		September 25, 2022	
	Amount	% of Revenue	Amount	% of Revenue
	(dollars in thousands)			
Net revenue	\$ 336,046	100 %	\$ 251,969	100 %
Cost of goods sold ⁽¹⁾	218,913	65 %	175,838	70 %
Gross profit	117,133	35 %	76,131	30 %
Operating expenses:				
Selling, general and administrative ⁽¹⁾	72,935	22 %	55,193	22 %
Shipping and distribution	20,034	6 %	22,279	9 %
Total operating expenses	92,969	28 %	77,472	31 %
Income from operations	24,164	7 %	(1,341)	(1)%
Other (expense) income, net:				
Interest expense	(513)	—	(27)	—
Interest income	1,497	—	652	—
Other expense, net	(2,508)	(1)%	(151)	—
Total other (expense) income, net	(1,524)	—	474	—
Net income before income taxes	22,640	7 %	(867)	—
Income tax provision (benefit)	4,284	1 %	(232)	—
Net income	18,356	5 %	(635)	—
Less: Net loss attributable to noncontrolling interests	—	—	(21)	—
Net income attributable to Vital Farms, Inc. common stockholders	\$ 18,356	5 %	\$ (614)	\$ —

(1)Includes stock-based compensation expense of \$5,308 and \$4,352 in selling, general and administrative for the 39-week periods ended September 24, 2023 and September 25, 2022, respectively, and \$194 and \$146 in cost of goods sold for the 39-week periods then ended, respectively.

Net Revenue

	39-Week Period Ended			
	September 24, 2023	September 25, 2022	\$ Change	% Change
	(in thousands)			
Net revenue	\$ 336,046	\$ 251,969	\$ 84,077	33 %

The increase in net revenue of \$84.1 million, or 33%, was primarily driven by price-related increases of \$47.0 million and volume-related increases of \$37.1 million. The volume favorability was primarily driven by increases at both new and existing customers. Net revenue from sales through our retail channel was \$312.6 million and \$244.6 million for the 39-week periods ended September 24, 2023 and September 25, 2022, respectively.

Gross Profit and Gross Margin

	39-Week Period Ended			
	September 24, 2023	September 25, 2022	\$ Change	% Change
	(in thousands)			
Gross profit	\$ 117,133	\$ 76,131	\$ 41,002	54 %
Gross margin	35 %	30 %		

The increase in gross profit of \$41.0 million, or 54%, was driven by higher net revenue generated during the period. The increase in gross margin during the 39-week period ended September 24, 2023 compared to the corresponding period in the prior year was primarily driven by volume increases, in addition to pricing increases across the entire portfolio in January 2023. The price increases offset an increase in input costs (inclusive of commodity impacts) across our shell egg business as well as higher packaging costs.

Operating Expenses

Selling, General and Administrative

	39-Week Period Ended		\$ Change	% Change
	September 24, 2023	September 25, 2022		
	(in thousands)			
Selling, general and administrative	\$ 72,935	\$ 55,193	\$ 17,742	32 %
Percentage of net revenue	22 %	22 %		

The increase in selling, general and administrative expenses of \$17.7 million, or 32%, was primarily driven by:

- an increase of \$8.7 million in marketing-related expenses;
- an increase of \$7.3 million in employee-related costs, including stock-based compensation, driven by an overall increase in employee headcount to support our operations; and
- an increase of \$1.2 million in professional service expenses to support increased operations and expansion of the business.

Shipping and Distribution

	39-Week Period Ended		\$ Change	% Change
	September 24, 2023	September 25, 2022		
	(in thousands)			
Shipping and distribution	\$ 20,034	\$ 22,279	\$ (2,245)	(10)%
Percentage of net revenue	6 %	9 %		

The decrease in shipping and distribution costs of \$2.2 million, or 10%, was driven by favorable freight rates and internal operational efficiency, partially offset by higher sales volumes.

Interest Income

	39-Week Period Ended		\$ Change	% Change
	September 24, 2023	September 25, 2022		
	(in thousands)			
Interest income	\$ 1,497	\$ 652	\$ 845	130 %

The increase in interest income of \$845,000, or 130%, was primarily driven by higher interest income on our available-for-sale securities portfolio.

Other Expense, net

	<u>39-Week Period Ended</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>September 24, 2023</u>	<u>September 25, 2022</u>		
	(in thousands)			
Other expense, net	\$ (2,508)	\$ (151)	\$ (2,357)	1,561%

The change in other expense, net of \$2.4 million was primarily driven by losses on our commodity derivative instruments during the 39-week period ended September 24, 2023.

Income Tax Provision (Benefit)

	<u>39-Week Period Ended</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>September 24, 2023</u>	<u>September 25, 2022</u>		
	(in thousands)			
Income tax provision (benefit)	\$ 4,284	\$ (232)	\$ 4,516	1,947%

The change in the income tax provision (benefit) of \$4.5 million, or 1,947%, was primarily driven by the increase in net income earned in the 39-week period ended September 24, 2023.

Liquidity and Capital Resources

Since inception, we have funded our operations with proceeds from sales of our capital stock, proceeds from borrowings and cash flows from the sale of our products. We had net income of \$4.5 million and \$18.4 million in the 13-week and 39-week periods ended September 24, 2023, respectively, and retained earnings of \$22.5 million as of September 24, 2023.

Funding and Material Cash Requirements

We expect that our cash, cash equivalents and marketable securities, together with cash provided by our operating activities and availability of borrowings under our existing Credit Facility, will be sufficient to fund our operating expenses for at least the next 12 months. We further believe that we will be able to fund potential operating expenses and cash obligations beyond the next 12 months, through a combination of existing cash, cash equivalents and marketable securities, cash provided by our operating activities and available borrowings under our Credit Facility.

Our future capital requirements will depend on many factors, including our pace of new and existing customer growth, our investments in innovation, our investments in acquisitions, partnerships and unexplored channels and the potential costs associated with future expansion of our production capacity. As of September 24, 2023, future minimum lease payments under non-cancelable operating leases totaled \$9.8 million and future minimum lease payments under non-cancelable finance leases totaled \$16.3 million.

Credit Facility

We originally entered into our Credit Facility with PNC Bank, National Association, or PNC Bank, in October 2017. The Credit Facility initially included a \$4.7 million term loan, a \$10.0 million revolving line of credit and an equipment loan with a maximum borrowing capacity of \$1.5 million.

Subsequently, terms of the Credit Facility were modified at various times between fiscal 2018 and fiscal 2022. Such amendments (i) amended various definitions, (ii) waived a technical default in May 2020 which was triggered by exceeding the capital expenditure limit, (iii) increased borrowing capacity and (iv) extended the maturity date. The Ninth Amendment to the Credit Facility in April 2021 eliminated the term loan and equipment loan. The Tenth Amendment to the Credit Facility in December 2022 modified certain covenants related to commodity hedging, consented to the dissolution of immaterial subsidiaries and implemented changes related to the discontinuation of LIBOR. The Eleventh Amendment to the Credit Facility effective July 26, 2023 extended the maturity date by one year, to April 2, 2025.

The maximum borrowing capacity under the revolving line of credit is currently \$20.0 million. Interest on borrowings under the revolving line of credit, as well as loan advances thereunder, accrues at a rate, at our election at the time of borrowing, equal to (i) the secured overnight financing rate as administered by the Federal Reserve Bank of New York plus 2.00% or (ii) 1.00% plus the alternate base rate, as defined in the Credit Facility.

The Credit Facility is secured by all of our assets (other than real property and certain other property excluded pursuant to the terms of the Credit Facility) and requires us to maintain three financial covenants: a fixed charge coverage ratio, a leverage ratio and a minimum tangible net worth requirement. The Credit Facility also contains various covenants relating to limitations on indebtedness, acquisitions, mergers, consolidations, the sale of properties and liens. As a result of the limitations contained in the Credit Facility, certain of the net assets on our consolidated balance sheet as of September 24, 2023 are restricted in use. The Credit Facility contains other customary covenants, representations and events of default.

As of September 24, 2023, there was no outstanding balance under the Credit Facility, and we were in compliance with all covenants under the Credit Facility. See “Long-Term Debt” in Note 13 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional details related to our Credit Facility.

Cash Flows

The following table summarizes our cash flows for the 39-week periods indicated:

	39-Week Period Ended	
	September 24, 2023	September 25, 2022
	(in thousands)	
Net cash provided by (used in) operating activities	\$ 27,177	\$ (3,368)
Net cash provided by (used in) investing activities	18,347	(8,945)
Net cash (used in) provided by financing activities	(1,628)	185
Net increase (decrease) in cash and cash equivalents	<u>\$ 43,896</u>	<u>\$ (12,128)</u>

Operating Activities

The increase in net cash provided by operating activities during the 39-week period ended September 24, 2023 compared to the corresponding period in the prior year was due primarily to higher net income earned in the current period due to gross margin improvements and better leverage of selling, general and administrative costs.

Investing Activities

The increase in cash provided by investing activities during the 39-week period ended September 24, 2023 is primarily due to the cash provided from maturities of our available-for-sale securities that was not reinvested as of September 24, 2023.

Financing Activities

The change in cash used in financing activities during the 39-week period ended September 24, 2023 compared to the corresponding period in the prior year was due primarily to the payment of tax withholding obligations on restricted stock unit shares vested in the period and an increase of principal payments on finance lease obligations.

Non-GAAP Financial Measures

Adjusted EBITDA

We report our financial results in accordance with GAAP. However, management believes that Adjusted EBITDA, a non-GAAP financial measure, provides investors with additional useful information in evaluating our performance.

We calculate Adjusted EBITDA as net income (loss), adjusted to exclude:

- Depreciation and amortization;
- Stock-based compensation expense;
- Costs related to the discontinuation of our convenient breakfast product line;
- Costs related to the dissolution of the Ovabrite, Inc. variable interest entity;
- Benefit or provision for income taxes as applicable;
- Interest expense;
- Change in fair value of contingent consideration; and
- Interest income.

Adjusted EBITDA is a financial measure that is not required by, or presented in accordance with, GAAP. We believe that Adjusted EBITDA, when taken together with our financial results presented in accordance with GAAP, provides meaningful supplemental information regarding our operating performance and facilitates internal comparisons of our historical operating performance on a more consistent basis by excluding certain items that may not be indicative of our business, results of operations or outlook. In particular, we believe that the use of Adjusted EBITDA is helpful to our investors as it is a measure used by management in assessing the health of our business, determining incentive compensation and evaluating our operating performance, as well as for internal planning and forecasting purposes.

Adjusted EBITDA is presented for supplemental informational purposes only, has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. Some of the limitations of Adjusted EBITDA include the following:

- It does not properly reflect capital commitments to be paid in the future;
- Although depreciation and amortization are non-cash charges, the underlying assets may need to be replaced and Adjusted EBITDA does not reflect these capital expenditures;
- It does not consider the impact of stock-based compensation expense, as such expenses in any specific period may not directly correlate to the underlying performance of our business operations and can vary significantly between periods as a result of the timing of grants of new stock-based awards;
- It does not include the costs related to the discontinuation of our convenient breakfast product line, as these costs are infrequent, unusual and we do not anticipate that we will incur similar significant costs for product exits in the foreseeable future;
- It does not reflect the dissolution of the Ovabrite, Inc. variable interest entity due to the infrequent nature of this transaction and the fact that we do not expect to experience similar dissolutions in the foreseeable future;
- It does not reflect other non-operating expenses, including interest expense;
- It does not consider the impact of any contingent consideration liability valuation adjustments; and
- It does not reflect tax payments that may represent a reduction in cash available to us.

In addition, our use of Adjusted EBITDA may not be comparable to similarly titled measures of other companies because they may not calculate Adjusted EBITDA in the same manner, limiting its usefulness as a comparative measure. Because of these limitations, when evaluating our performance, you should consider Adjusted EBITDA alongside other financial measures, including our net income or loss and other results stated in accordance with GAAP.

The following table presents a reconciliation of Adjusted EBITDA to net income (loss), the most directly comparable financial measure stated in accordance with GAAP, for the periods presented:

	13-Weeks Ended		39-Weeks Ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
	(in thousands)		(in thousands)	
Net income (loss)	\$ 4,523	\$ 711	\$ 18,356	\$ (635)
Depreciation and amortization ¹	2,860	1,646	7,297	3,892
Stock-based compensation expense	1,815	1,569	5,502	4,498
Costs related to our exit of the convenient breakfast product line	—	—	—	2,341
Dissolution of Ovabrite, Inc.	—	122	—	122
Income tax provision (benefit)	533	1,465	4,284	(232)
Interest expense	238	12	513	27
Change in fair value of contingent consideration ²	—	—	—	19
Interest income	(707)	(312)	(1,497)	(652)
Adjusted EBITDA	\$ 9,262	\$ 5,213	\$ 34,455	\$ 9,380

¹ Amount also reflects finance lease amortization.

² Amount reflects the change in fair value of a contingent consideration liability in connection with our 2014 acquisition of certain assets of Heartland Eggs.

Seasonality

Demand for our products fluctuates in response to seasonal factors. Demand tends to increase with the start of the school year and is highest prior to holiday periods, particularly Thanksgiving, Christmas and Easter, and lowest during the summer months. As a result of these seasonal and quarterly fluctuations, comparisons of our sales and results of operations between different quarters within a single fiscal year are not necessarily meaningful comparisons.

Critical Accounting Estimates

The preparation of our unaudited condensed consolidated financial statements in conformity with GAAP requires us to make estimates and judgments that affect the amounts reported in the financial statements and related notes thereto. Critical accounting estimates are those estimates that involve a significant level of estimation uncertainty and have had, or are reasonably likely to have, a material impact on our unaudited condensed consolidated financial statements. Management has determined that our most critical accounting estimates are those relating to trade promotion accruals and income taxes. Although we believe that the estimates we use are reasonable, due to the inherent uncertainty involved in making these estimates, actual results reported in future periods could differ materially from those estimates. For further discussion about our accounting policies, see “Summary of Significant Accounting Policies” in Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.

The significant accounting estimates used in preparation of the unaudited condensed consolidated financial statements are described in our audited consolidated financial statements as of and for the fiscal year ended December 25, 2022, and the notes thereto, which are included in our Annual Report. Except as detailed in Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report, there have been no material changes to our significant accounting policies or critical accounting estimates during the 39-week period ended September 24, 2023.

Recent Accounting Pronouncements

See the sections titled “Summary of Significant Accounting Policies—Recently Adopted Accounting Pronouncements” and “—Recently Issued Accounting Pronouncements Not Yet Adopted” in Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report for a discussion of recent accounting pronouncements.

Emerging Growth Company Status

In April 2012, the Jumpstart Our Business Startups Act of 2012, or JOBS Act, was enacted. Section 107 of the JOBS Act provides that an “emerging growth company” may take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Therefore, an emerging growth company can delay the

adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to use the extended transition period under the JOBS Act. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

We may take advantage of these exemptions until December 31, 2025, or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company on the date that is the earliest of (1) the last day of the fiscal year in which we have total annual gross revenues of \$1.235 billion or more; (2) December 31, 2025; (3) the date on which we have issued more than \$1.0 billion in nonconvertible debt during the previous three years; or (4) the date on which we are deemed to be a large accelerated filer under the rules of the Securities and Exchange Commission. We may choose to take advantage of some but not all of these exemptions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in raw materials, ingredients, inflation and interest rates.

There have been no material changes in our exposure to market risk during the 13-week and 39-week periods ended September 24, 2023 from the information provided in Part II, Item 7A. “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 24, 2023. Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. For additional information regarding legal proceedings, if any, see Note 19 “Commitments and Contingencies—Litigation” to our unaudited condensed consolidated financial statements included elsewhere in this report. We are not aware of any material pending or threatened legal proceedings, other than ordinary routine litigation incidental to the business, against us that we believe could have an adverse effect on our business, operating results or financial condition.

Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties. The following is a description of the known factors that may materially affect our business, results of operations or financial condition. You should carefully consider the following risk factors, as well as the other information in this Quarterly Report. If any of the following risks actually occurs, our business, results of operations and financial condition could be adversely affected. In this case, the trading price of our common stock would likely decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may adversely affect our business, results of operations and financial condition.

Summary of Selected Risks Associated with Our Business

Our business faces significant risks and uncertainties. If any of the following risks are realized, our business, financial condition and results of operations could be materially and adversely affected. These risks include, among others, the following:

- Our recent, rapid growth may not be indicative of our future growth, and if we continue to grow rapidly, we may not be able to effectively manage our growth or evaluate our future prospects. If we fail to effectively manage our future growth or evaluate our future prospects, our business could be adversely affected.
- We have incurred net losses in the past and we may not be able to maintain or increase our profitability in the future.
- Sales of shell eggs constitute the vast majority of our revenue, and a reduction in these sales would have an adverse effect on our financial condition.
- Failure to introduce successful new products, enter into new product categories or successfully pursue growth by other means may adversely affect our ability to continue to grow.
- We are dependent on the market for shell eggs, and fluctuations in this market, including the decline of commodity shell egg prices relative to the price of our shell eggs, could adversely affect our business, financial condition and results of operations.
- Fluctuations in commodity prices and in the availability of feed grains could negatively impact our results of operations and financial condition.
- If we fail to effectively expand our processing, manufacturing and production capacity as we continue to grow and scale our business, our operating results and brand reputation could be harmed.
- A substantial amount of our shell egg processing occurs at our Egg Central Station processing facility. Any damage or disruption at this facility may harm our business.
- If we fail to effectively maintain relationships within our existing farm network or further expand our farm network, our business, operating results and brand reputation could be harmed.
- Future expansions of our processing capacity may not provide us with the benefits we expect to receive.
- If we fail to effectively price our products or implement price increases, our financial condition may be adversely affected.
- Increased transportation and freight costs and failure by our transportation providers to pick up raw materials or deliver our products on time, in compliance with applicable governmental regulations or at all, have adversely impacted and are expected to continue to adversely impact our operating results.

- Our future business, results of operations and financial condition may be adversely affected by reduced or limited availability of eggs, cream for our butter and other raw materials that meet our standards.
- We may not be able to compete successfully in our highly competitive market.
- We currently have a limited number of co-manufacturers. The loss of one or more of our co-manufacturers or our failure to timely identify and establish relationships with new co-manufacturers could harm our business and impede our growth.
- Outbreaks of agricultural diseases, including avian influenza, the perception that outbreaks may occur or regulatory or market responses to outbreaks could reduce supply or demand for our products and harm our business.
- We could be adversely affected by a change in consumer preferences, perception and spending habits in the natural food industry generally and with respect to animal-based products. In particular, any failure to develop or enrich our product offering or gain market acceptance of our new products could have a negative effect on our business.
- A limited number of distributors represent a substantial portion of our sales, and the loss of one or more distributor relationships that cannot be replaced in a timely manner may adversely affect our results of operations.
- We are dependent on hatcheries and pullet farms to supply our network of family farms with laying hens. Any disruption in that supply chain could materially and adversely affect our business, financial condition or results of operations.
- Elevated interest rates could adversely affect our business.
- Consolidation of retail customers or the loss of a significant retail customer could negatively impact our sales and profitability.
- We source substantially all of our shell egg cartons from a sole source supplier, and any disruptions may impact our ability to sell our eggs.
- Because we rely on a limited number of third-party vendors to store our products, we may not be able to maintain or obtain the capacity necessary to store our products.
- Our brand and reputation may be diminished due to real or perceived quality or food safety issues with our products, which could have an adverse effect on our business, reputation, operating results and financial condition.
- Demand for shell eggs is subject to seasonal fluctuations, which can adversely impact our results of operations in certain quarters.
- Packaging costs are volatile, have recently increased and may continue to rise significantly, which may negatively impact our profitability, and any reduced availability of packaging supplies may otherwise impact our business.
- If we fail to retain and motivate members of our management team or other key crew members, fail to attract and retain additional crew members or fail to maintain our company culture and focus on our purpose, our business may be harmed.
- Disruptions in the worldwide economy may adversely affect our business, results of operations and financial condition.
- Public health pandemics, such as COVID-19, could have a material adverse impact on our business, results of operations and financial condition.
- Failure to adequately respond to stakeholder scrutiny related to environmental, social and governance (ESG) issues, or failure to achieve our ESG goals, could adversely impact our reputation and brand.
- Food safety and food-borne illness incidents or advertising or product mislabeling may materially and adversely affect our business by exposing us to lawsuits, product recalls or regulatory enforcement actions, increasing our operating costs and reducing demand for our product offerings.
- Our operations are subject to FDA and USDA federal regulation, as well as other federal, state and local regulations, and there is no assurance that we will be in compliance with all applicable regulations.
- Our status as a public benefit corporation and a Certified B Corporation may not result in the benefits we anticipate, or we may be unable to maintain our Certified B Corporation status.

Risks Related to Our Growth and Capital Requirements

Our recent, rapid growth may not be indicative of our future growth, and if we continue to grow rapidly, we may not be able to effectively manage our growth or evaluate our future prospects. If we fail to effectively manage our future growth or evaluate our future prospects, our business could be adversely affected.

We have grown rapidly since inception and anticipate further growth. For example, our net revenue increased from \$92.0 million in the 13-week period ended September 25, 2022 to \$110.4 million in the 13-week period ended September 24, 2023, our net revenue increased from \$252.0 million in the 39-week period ended September 25, 2022 to \$336.0 million in the 39-week period ended September 24, 2023, and our net revenue increased from \$260.9 million in fiscal 2021 to \$362.1 million in fiscal 2022. This growth has placed significant demands on our management, financial, operational, technological and other resources. The continued growth and expansion of our business depends on a number of factors, including our ability to:

- increase awareness of our brand and successfully compete with other companies;
- price our products effectively so that we are able to attract new customers and consumers and expand sales to our existing customers and consumers;
- expand distribution to new points of sales with new and existing customers;
- continue to innovate and introduce new products;
- successfully expand into new product categories;
- expand our supplier, co-manufacturing, co-packing, cold storage, processing and distribution capacities;
- invest in information technology systems and related improvements to our processes and procedures; and
- maintain quality control over our product offerings.

The growth and expansion of our business has placed, and will continue to place, significant demands on our management and operations teams and will require significant additional resources, financial and otherwise, to meet our needs, which may not be available in a cost-effective manner, or at all. We expect to continue to expend substantial resources on our current and future processing facilities, our sales and marketing efforts, product innovation and development, and general administration associated with being a public company.

These investments may not result in the continued growth of our business. Even if these investments do result in the growth of our business, if we do not effectively manage our growth, we may not be able to execute on our business plan, respond to competitive pressures, take advantage of market opportunities, satisfy customer requirements or maintain high-quality product offerings, any of which could adversely affect our business, financial condition and results of operations.

We have incurred net losses in the past and we may not be able to maintain or increase our profitability in the future.

For the 13-week periods ended September 24, 2023 and September 25, 2022, we generated net income of \$4.5 million and \$0.7 million, respectively. For the 39-week period ended September 24, 2023, we generated net income of \$18.4 million, compared to the 39-week period ended September 25, 2022, when we generated a net loss of \$0.6 million. We have also experienced net losses in prior fiscal periods, including a net loss of \$2.1 million in fiscal 2017. Our ability to maintain or increase our profitability is subject to various factors, many of which are beyond our control. As we continue to expand our operations, we anticipate that our operating expenses and capital expenditures will increase substantially in the foreseeable future as we continue to invest to increase our household penetration, customer base, supplier network, marketing channels and product portfolio, expand and enhance our processing, manufacturing and distribution facilities, and hire additional crew members. Our ongoing expansion efforts may prove more expensive than we anticipate (including as a result of inflation, increases in input costs or disruptions in our supply chain relating to public health pandemics, such as COVID-19, trade wars, geopolitical tensions, such as the Russia-Ukraine war and ongoing conflicts in the Middle East, or other factors), and we may not succeed in increasing our net revenue and margins sufficiently to offset the anticipated higher expenses. We have incurred significant expenses in connection with investing in our processing capacity, our co-manufacturing and co-packing relationships, and obtaining and storing raw materials, and we will continue to incur significant expenses in developing and marketing products. In addition, many of our expenses, including the costs associated with our existing and any future processing and manufacturing facilities, may be fixed. We also expect to continue to incur significant legal, accounting and other expenses as we grow and mature as a public company. If we fail to grow our revenue at a greater rate than our costs and expenses, we may be unable to maintain or increase our profitability and may incur losses in the future.

Sales of shell eggs constitute the vast majority of our net revenue, and a reduction in these sales would have an adverse effect on our financial condition.

Shell eggs accounted for approximately 92% and 94% of our net revenue in the 13-week periods ended September 24, 2023 and September 25, 2022, respectively. Shell eggs accounted for approximately 92% and 94% of our net revenue in the 39-week periods ended September 24, 2023 and September 25, 2022, respectively. Shell eggs are our flagship product and have been the focal point of our sales and marketing efforts, and we believe that sales of shell eggs will continue to constitute a significant portion of our net revenue, net income and cash flow for the foreseeable future. We cannot be certain that we will be able to continue to expand sales, processing and distribution of shell eggs, or that consumer and customer demand for our other existing and future products will expand to allow such products to represent a larger percentage of our revenue than they do currently. Accordingly, any factor adversely affecting sales of our shell eggs (including consumers' election to purchase lower-priced private-label or other economy brands during times of economic uncertainty) could have an adverse effect on our business, financial condition and results of operations.

Failure to introduce successful new products, successfully enter into new product categories or successfully pursue growth by other means may adversely affect our ability to continue to grow.

One element of our growth strategy depends on our ability to develop and market new products that meet our standards for quality and appeal to consumer preferences. The success of our innovation and product development efforts is affected by our ability to anticipate changes in consumer preferences, the technical capability of our innovation staff in developing and testing product prototypes, our ability to comply with applicable governmental regulations, and the success of our management and sales and marketing teams in introducing and marketing new products, including through entry into new product categories. There can be no assurance that we will successfully develop and market new products or successfully enter into product categories. The development and introduction of new products requires substantial marketing expenditures, which we may be unable to recoup if the new products do not gain widespread market acceptance. If we are unsuccessful in meeting our objectives with respect to new or improved products, our business could be harmed. For example, we discontinued our convenient breakfast offerings in 2022 and our ghee offerings in 2023 to focus on product categories that are core to our operations. Any failure to successfully develop, market and launch future products or enter into new product categories may lead to decreased growth, sales and profitability.

Further risks are presented if we elect to pursue continued growth or enter new product categories by means other than new product introductions, including by acquisitions or investments in business or technologies that we believe could offer growth opportunities. The pursuit of such opportunities may divert the attention of management. Furthermore, it may cause us to incur various costs and expenses in identifying, investigating and pursuing such transactions, regardless of whether such opportunities are realized. Such acquisitions, transactions or investments may also result in potentially dilutive equity issuances, the incurrence of debt or contingent liabilities or challenges with integration, any of which could adversely affect our business, financial condition and results of operations.

We estimate market opportunity and forecast market growth that may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

Our estimates of market opportunity and growth forecasts included in this Quarterly Report and elsewhere, including in connection with the long-term financial goals we announced in 2023, are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate, particularly in light of economic uncertainties. The variables that go into the calculation of our market opportunity are subject to change over time, and there is no guarantee that any particular number or percentage of customers covered by our market opportunity estimates will purchase our products at all or generate any particular level of revenue for us. Any expansion in our market depends on a number of factors, including the cost and perceived value associated with our products and those of our competitors. Even if the market in which we compete meets the size estimates and growth forecast, our business could fail to grow at the rate we anticipate, if at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties. Accordingly, our forecasts of market growth should not be taken as indicative of our future growth.

We may require additional financing to achieve our goals, and the failure to obtain this necessary capital when needed on acceptable terms, or at all, may force us to delay, limit, reduce or terminate our product manufacturing and development, and other operations.

We have funded our operations since inception primarily through equity financings and sales of our products. We have incurred and expect to continue to incur significant expenses related to the expansion of our processing capacity, including in connection with our construction and expansion of Egg Central Station and the potential development of an additional egg packing center. We believe that we will continue to expend substantial resources for the foreseeable future as we consider additional markets we may choose to pursue and other growth opportunities.

We expect that our existing cash, cash equivalents and marketable securities, together with cash provided by our operating activities and available borrowings under our existing credit facility with PNC Bank, National Association, or the Credit Facility, will be sufficient to fund our planned operating expenses and capital expenditure requirements through at least the next 12 months. However, our operating plan may change because of factors currently unknown to us, and we may need to seek additional funds sooner than planned, through public or private equity or debt financings or other sources, such as strategic collaborations. We may also seek financing in connection with potential new product introductions or acquisitions or investments in businesses or technologies that we believe could offer growth opportunities. Such financings may result in dilution to stockholders, imposition of debt covenants and repayment obligations, or other restrictions that may adversely affect our business. In addition, we may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans.

Our ability to access additional capital may further be affected by adverse and uncertain economic conditions. Weakness and volatility in the capital markets and the economy in general could make it more difficult to access the capital markets and could increase our cost of borrowing. Historically, our deposit accounts have held deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation, or FDIC. In the event of a bank failure at any of the institutions where we maintain deposits, there can be no assurance that regulators will agree to guarantee such deposits above and beyond amounts insured by the FDIC.

The agreements governing our Credit Facility require us to meet certain covenants, which could restrict our operational and financial flexibility.

The Credit Facility provides for a revolving line of credit with a maximum borrowing capacity of \$20.0 million. The Credit Facility contains certain restrictive covenants, in each case subject to certain exceptions. The restrictive covenants in the Credit Facility limit our ability to incur or guarantee additional indebtedness, incur liens, enter into fundamental changes such as mergers or consolidations, change our fiscal year or substantially change the nature of our business. The Credit Facility also requires us to maintain three financial covenants: a fixed charge coverage ratio, a leverage ratio and a minimum tangible net worth requirement. These provisions may affect our ability to pursue business opportunities we find attractive or maintain flexibility in reacting to changes in business conditions.

Our failure to comply with the covenants in our Credit Facility or other terms of any present or future indebtedness could result in an event of default under such indebtedness, which, if not cured or waived, could result in the lender or lenders under such indebtedness declaring all obligations, together with accrued and unpaid interest, immediately due and payable and taking control of any collateral securing such indebtedness. This may require us to amend or refinance our indebtedness on less favorable terms.

If we are forced to amend or refinance the Credit Facility on less favorable terms or are unable to do so at all, our business, financial condition and results of operations could be adversely affected. In any such case, we may be unable to borrow under the Credit Facility or other indebtedness and may not be able to repay the amounts due thereunder. This could have an adverse effect on our business, financial condition, results of operations and prospects.

Risks Related to Our Business, Our Brand, Our Products and Our Industry

We are dependent on the market for shell eggs, and fluctuations in this market, including the decline of commodity shell egg prices relative to the price of our shell eggs, could adversely affect our business, financial condition and results of operations.

We contract with family farms to purchase all of their egg production for the duration of our contracts. We are contractually obligated to purchase these eggs irrespective of our ability to sell such eggs. Periodically in our industry, there has been an oversupply of eggs, which has caused egg prices to contract, sometimes substantially so, and as a result we have sold or donated our excess supply at reduced prices or no cost. If we are unable to sell such eggs upon commercially reasonable terms, or at all, our gross margins, business, financial condition and operating results may be adversely affected. Conversely, there have at times in recent periods been supply shortages in the egg industry, with supply impacted by, among other things, avian influenza, increased demand for eggs and increases in feed and other input costs. Such supply shortages, together with price increases we or others in the industry have implemented or choose to implement in the future, could result in declining consumer demand for shell eggs or inability to fulfill customer demand, each of which could have a material impact on our financial condition and results and operations.

We sell shell eggs to consumers at a premium price point, and when prices for commodity shell eggs fall relative to the price of our shell eggs (including due to any price increases we may implement or supply expansions in the market for commodity shell eggs), price-sensitive consumers may choose to purchase commodity shell eggs offered by our competitors at a greater velocity than, or instead of, our shell eggs. As a result, low commodity shell egg prices relative to the price of our shell eggs may adversely affect our business, financial condition and results of operations.

We also sell a small percentage of our shell eggs to wholesalers and egg breaking plants at commodity shell egg prices, which fluctuate widely and are outside our control. Small increases in production or small decreases in demand can have a large adverse effect on the prices at which these eggs are sold.

Fluctuations in commodity prices and in the availability of feed grains could negatively impact our results of operations and financial condition.

The price we pay to purchase shell eggs from farmers fluctuates based on pallet weight and is also adjusted quarterly for changes in feed cost, which may cause our agreed-upon pricing under these contracts to fluctuate on a quarterly basis. Therefore, our results of operations and financial condition, including our gross margin and profitability, fluctuate based on the cost and supply of commodities, including corn, soybean meal and other feed ingredients.

Although feed ingredients are available from a number of sources, we have little, if any, control over the prices of these ingredients, which are affected by weather, speculators, export restrictions, various supply and demand factors, geopolitical tensions, inflation, transportation and storage costs, and agricultural and energy policies in the United States and internationally. We have seen increased prices for conventional and organic corn and soybean crops on a global basis, including increased prices resulting from the Russia-Ukraine war and measures taken in response thereto, inflation and supply chain shortages. It is possible that ongoing conflicts in the Middle East may have similar effects. In December 2022, we entered into commodity derivative instrument contracts related to conventional and organic feed ingredients. If we are unable to successfully conduct this program to reduce the impact of commodity price fluctuations, our financial condition and results of operations may be impacted.

We may not be able to increase our product prices enough or in a timely manner to sufficiently offset increased commodity costs due to consumer price sensitivity or the pricing postures of our competitors and, in many cases, our retailers may not accept a price increase or may require price increases to occur after a specified period of time elapses. Over time, if we are unable to price our products to cover increased costs, unable to offset operating cost increases with continuous improvement savings or unsuccessful in our current or any future commodity derivative instrument program, then commodity price volatility or increases could adversely affect our business, financial condition and results of operations.

If we fail to effectively expand our processing, manufacturing and production capacity as we continue to grow and scale our business, our operating results and brand reputation could be harmed.

While our current supply, processing and manufacturing capabilities are sufficient to meet our present business needs, we may need to expand these capabilities in the future as we continue to grow and scale our business. For example, in fiscal 2022 we completed an expansion of Egg Central Station, our shell egg processing facility in Springfield, Missouri, to increase our capacity for the distribution of shell eggs. Additionally, we announced that we had begun the design and the site selection process for our next egg packing center. However, there is risk in our ability to effectively continue to scale production and processing and manage our supply chain requirements. We must accurately forecast demand for our products in order to ensure we have adequate processing and manufacturing capacity to effectively allocate product supply across our stock keeping units, or SKUs.

Our forecasts are based on multiple assumptions that, if inaccurate, may affect our ability to maintain adequate processing and manufacturing capacities (or co-processing and co-manufacturing capacities) in order to meet the demand for our products, which could prevent us from meeting increased customer demand. If we fail to meet demand for our products and, as a result, consumers who have previously purchased our products buy other brands or our retail customers allocate shelf space to other brands, our business, financial condition and results of operations could be adversely affected.

On the other hand, if we overestimate our demand or overbuild our capacity, we may have significantly underutilized supply or other assets and may experience reduced margins. If we do not accurately align our processing and manufacturing capabilities with demand, our business, financial condition and results of operations could be adversely affected.

A substantial amount of our shell egg processing occurs at our Egg Central Station processing facility. Any damage or disruption at this facility may harm our business.

A substantial amount of our shell egg processing occurs at our Egg Central Station shell egg processing facility. Any shutdown or period of reduced production at Egg Central Station, which may be caused by regulatory noncompliance or other issues, as well as factors beyond our control, such as natural disaster, weather, fire, power interruption, work stoppage, disease outbreaks or pandemics (such as COVID-19), equipment failure or delay in raw materials delivery, would significantly disrupt our ability to deliver our products in a timely manner, meet our contractual obligations and operate our business. Further, the processing equipment used for our shell eggs is costly to replace or repair, particularly because certain of such equipment is sourced internationally. We have at times seen pricing and capacity constraints related to internationally sourced equipment, and our equipment supply chains may be further disrupted in connection with public health pandemics, geopolitical tensions and wars, including the Russia-Ukraine war, inflation, trade wars or other factors. If any material amount of our machinery were damaged, we could be unable to predict when, if at all, we could replace or repair such machinery or find co-manufacturers with suitable alternative machinery, which could adversely affect our business, financial condition and operating results. The property and business disruption insurance we maintain for Egg Central Station may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all.

If we fail to effectively maintain relationships within our existing farm network or further expand our farm network, our business, operating results and brand reputation could be harmed.

We source our eggs and the cream for our butter products from our network of family farms, which is the foundation of our supply chain. If we are unable to maintain and expand this supply chain because of actions taken by farmers or other events outside of our control, we may be unable to timely supply distributors and customers with our products, which could lead to cancellation of purchase orders, damage to our commercial relationships and impairment of our brand. For example, we require our egg farmers to build and equip their farms to certain specifications, which requires a significant upfront capital investment, and any inability of farmers to obtain adequate financing on acceptable terms, including due to elevated interest rates, would impair their ability to contract with us. These and other factors, including economic uncertainty, may make it more difficult for us to recruit and attract new farmers to our network in a number sufficient to meet product demand.

There are a number of factors that could impair our relationship with farmers, many of which are outside of our control. While we strive to operate our business in a manner that drives long-term and sustainable benefits for our stakeholders, including our farmers, we may make strategic decisions that our farmers disagree with and which could cause farmers to terminate their relationships with us. Reputational harm resulting from impairment of our relationship with existing farmers may also make it more difficult to attract new farmers to expand our network. If our relationship with our existing or future farmers is disrupted due to these or other factors, we may not be able to sustain the supply necessary to meet customer and consumer demand for our products, which would negatively impact our operating results. Any failure to maintain or expand our farm network would adversely affect our business, financial condition and results of operations.

Future expansions of our processing capacity may not provide us with the benefits we expect to receive.

In fiscal 2022, we completed a significant expansion of our Egg Central Station processing facility and announced that we had begun the design and site selection process for our next egg packing center. If the design and site selection process does not proceed as anticipated, if the potential new egg packing center is not brought up to full processing capacity or if we are unable to hire, train and retain crew members to support an additional egg packing center, we may not be able to fully realize the potential benefits of such additional egg packing center and our business, financial condition and operating results could be adversely affected.

If we fail to effectively price our products or implement price increases, our financial condition may be adversely affected.

The prices of our products are driven by a number of factors, including supply constraints, customer and consumer demand, inflation, input costs and market conditions. In response to such conditions, we increased prices on certain of our products in January 2022, May 2022 and January 2023. While we have not yet seen significant decreases in sales volume due to such price increases, if we further increase prices, we could experience declining demand for our products, decreased ability to attract new customers and lower sales volumes. If price increases result in a greater spread between the price of our products and the price of conventional or private-label products, consumers may be less willing to pay a premium for our products, particularly in times of economic uncertainty. Additionally, our retail customers may not accept such price increases or may require increased promotional activity. If we cannot effectively price our products or carry out price increases, our business, financial condition and operating results could be adversely affected.

Increased transportation and freight costs or failure by our transportation providers to pick up raw materials or deliver our products on time, in compliance with applicable governmental regulations or at all, have adversely impact and are expected to continue to adversely impact our operating results.

We rely upon third-party transportation providers for a significant portion of our raw material transportation and product shipments. Our utilization of pickup and delivery services for shipments is subject to risks, including increases in fuel prices, driver shortages, trucking capacity limitations due to general increases in freight demand, employee and contractor strikes or unavailability (including due to disease outbreaks and pandemics, such as COVID-19) or inclement weather, any of which could increase our transportation and freight costs. For example, due in part to increased labor costs and rising fuel costs due to international tensions and wars, we have seen at times during recent periods increased transportation and freight costs. Further increases in transportation and freight costs could have an adverse effect on our ability to increase or to maintain production on a profitable basis and could therefore adversely affect our operating results. We may not be able to price our products in a manner that sufficiently offsets increased transportation costs due to consumer price sensitivity or the pricing postures of our competitors and, in many cases, our retail customers may not accept a price increase or may require price increases to occur after a specified period of time elapses. In addition, if we increase prices to offset higher transportation and freight costs, we could experience lower demand for our products, decreased ability to attract new customers and lower sales volumes.

Furthermore, noncompliance by our third-party transportation providers with applicable regulatory requirements may impact the ability of providers to provide delivery services that adequately meet our shipping needs. Due to increased costs or noncompliance by our transportation providers with applicable regulatory requirements, we may change shipping companies, and we could face logistical difficulties with any such change that could adversely affect deliveries. In addition, we could incur costs and expend resources in connection with such change. Moreover, we may not be able to obtain terms as favorable as those we receive from the third-party transportation providers that we currently use, which in turn would increase our costs and adversely affect our operating results.

Our future business, results of operations and financial condition may be adversely affected by reduced or limited availability of eggs, cream for our butter and other raw materials that meet our standards.

Our ability to ensure a continuing supply of eggs, cream for our butter and other raw materials for our products at competitive prices depends on many factors beyond our control. In particular, we rely on the farms that supply us with eggs and cream to implement controls and procedures to manage the risk of exposing animals to harmful diseases, but outbreaks may occur despite their efforts. An outbreak of disease could result in increased government restriction on the sale and distribution of our products, and negative publicity could impact customer and consumer perception of our products, even if an outbreak does not directly impact the animals from which we source our products. Our farm network for our shell eggs is in a geographic region we refer to as the Pasture Belt, which is a term we use that refers to the U.S. region where the weather is conducive to hens being outside as much as possible. The dairy farms that supply our cream are primarily located in Kansas and the panhandle region of Texas. The occurrence of a natural disaster in any of these regions could have a significant negative impact on us, the farmers and our supply chain. Additionally, the animals from which our products are sourced, the crops on which we rely for feed and the pastures on which these animals are raised are vulnerable to adverse weather conditions and natural disasters, such as floods, droughts, frosts, earthquakes, hurricanes and pestilence. Disease, adverse weather conditions and natural disasters can adversely impact pasture quantity and quality, leading to reduced yields and quality, which in turn could reduce the available supply of, or increase the price of, our raw materials. If we raised prices for our products to account for this increase, we could experience decreased demand for our products and lower sales volumes, thereby adversely affecting our business, financial condition and results of operations.

We also compete with other food companies in the procurement of eggs and cream, and this competition may increase in the future if consumer demand increases for these items or products containing them or if competitors increasingly offer products in these market sectors. If supplies of eggs and cream that meet our quality standards are reduced or are in greater demand, we may not be able to obtain sufficient supply to meet our needs on favorable terms, or at all.

Our supply may also be affected by the number and size of farms that raise chickens and cows that meet our standards, changes in U.S. and global economic conditions and our ability to forecast our raw materials requirements. For example, in order to meet our standards, we require our egg farms to invest in infrastructure at the outset of our relationship. The typical upfront investment for each of the farms is significant, and many farmers seek financing assistance from local and regional banks as well as federal government loans from the U.S. Department of Agriculture, or USDA, Farm Service Agency. Changes in U.S. and global economic conditions, elevated interest rates or a U.S. government shutdown could significantly affect the loans available to farmers. Many of these farmers have alternative income opportunities and the relative financial performance of raising chickens and cows in accordance with our standards as compared to other potentially more profitable opportunities could affect their interest in working with us. Any of these factors could impact our ability to supply our products to distributors and customers and may adversely affect our business, financial condition and results of operations.

We may not be able to compete successfully in our highly competitive market.

We compete with large egg companies such as Cal-Maine, Inc. and large international food companies such as Ornuo Co-operative Limited (Kerrygold). We also compete directly with local and regional egg and dairy companies, as well as private-label specialty products processed by other egg and dairy companies. Each of these competitors may have substantially greater financial and other resources than us and some of our competitors' products are well accepted in the marketplace today. Such competitors may also have lower operational costs, and as a result may be able to offer comparable or substitute products to customers at lower costs. This could put pressure on us to lower our prices, resulting in lower profitability or, in the alternative, cause us to lose market share if we fail to reduce prices. Conversely, if we were to increase prices, including as a result of fluctuations in the shell egg market, increased commodity or raw material costs, increased packaging or transportation costs or otherwise, any resulting decline in consumer demand for our products may be exacerbated by the competitiveness of our market.

Generally, the food industry is dominated by multinational corporations with substantially greater resources and operations than we have. We cannot be certain that we will successfully compete with larger competitors that have greater financial, sales and technical resources. Conventional food companies may acquire our competitors or launch their own egg and butter products, and they may be able to use their resources and scale to respond to competitive pressures and changes in consumer preferences by introducing new products, reducing prices or increasing promotional activities, among other things. Retailers also market competitive products under their own private labels, which are generally sold at lower prices, and may change the merchandising of our products so they have less favorable placement. Larger competitors may also be less affected by economic disruption and uncertainty, including with respect to inflation, global economic conditions or agricultural diseases such as avian influenza, than we are. These competitive pressures could cause us to lose market share, which may require us to lower prices, increase marketing and advertising expenditures or increase the use of discounting or promotional campaigns, each of which could adversely affect our margins and could result in a decrease in our operating results and profitability.

Failure to leverage our brand value propositions to compete against private-label products, especially during an economic downturn, may adversely affect our profitability.

In many product categories, we compete not only with other well-advertised nationally branded products, but also with private-label products. Such private-label products generally are sold at lower prices. Consumers are more likely to purchase our products if they believe that our products provide a higher quality and greater value than less expensive alternatives. If the difference in perceived value between our brands and private-label products narrows, or if there is a perception of such a narrowing, consumers may choose not to buy our products at prices that are profitable for us. We believe that in periods of economic uncertainty, particularly in periods of uncertainty driven by high inflation, consumers may purchase more often from lower-priced private-label or other economy brands. To the extent this occurs, we could experience a decrease in the sales volume of our higher margin products or a shift in our product mix to lower margin offerings. In addition, our foodservice product sales will be reduced if consumers reduce the amount of food that they consume away from home at our foodservice customers, including as a result of public health pandemics or economic uncertainty driven by inflation or other factors.

We currently have a limited number of co-manufacturers. The loss of one or more of our co-manufacturers or our failure to timely identify and establish relationships with new co-manufacturers could harm our business and impede our growth.

A significant amount of our revenue is derived from products manufactured at facilities owned and operated by our co-manufacturers. We currently rely on two co-manufacturers for hard-boiled eggs, one co-manufacturer for bulk butter production, two co-manufacturers for stick butter, one co-manufacturer for spreadable tub butter, one co-manufacturer for liquid eggs, and one co-packer for certain shell egg processing. While we currently have written manufacturing contracts with one of our co-manufacturers for hard-boiled eggs and one of our co-manufacturers for stick butter, we do not currently have written manufacturing contracts with our other co-manufacturers or with our co-packer for certain shell egg processing. Due to the absence of written contracts with certain of our co-manufacturers, these co-manufacturers can generally seek to alter or terminate their relationships with us at any time, resulting in with periods during which we may have limited or no ability to manufacture certain of our products.

In addition, due to the limited number of co-manufacturers, an interruption in, or the loss of operations at, one or more of our co-manufacturing facilities, which may be caused by work stoppages, regulatory issues or noncompliance, disease outbreaks or pandemics (such as COVID-19), war, terrorism, fire, earthquakes, flooding or other weather or natural disasters, could delay, postpone or reduce production of some of our products, which could have an adverse effect on our business, financial condition and results of operations until such time as the interruption is resolved or an alternate source of production is secured, especially in times of low inventory.

We believe there are a limited number of competent, high-quality co-manufacturers in our industry that meet our geographical requirements and our strict quality and control standards, and should we seek to obtain additional or alternative co-manufacturing arrangements in the future, there can be no assurance that we would be able to do so on satisfactory terms, in a timely manner, or at all. Therefore, the loss of one or more co-manufacturers, any disruption or delay at a co-manufacturer or any failure to identify and engage co-manufacturers for new products and product extensions could delay, postpone or reduce production of our products, which could have an adverse effect on our business, financial condition and results of operations.

Outbreaks of agricultural diseases, including avian influenza, the perception that outbreaks may occur or regulatory or market responses to outbreaks could reduce supply or demand for our products and harm our business.

Our business activities are subject to a variety of agricultural risks, including pests and diseases such as avian influenza, the occurrence of which can materially and adversely affect the quality and quantity of products, including shell eggs, that we distribute. Since the outbreak of highly pathogenic avian influenza, or HPAI, in early 2022, we have been closely following the progression of the virus. To date, we have experienced outbreaks at two of our farms, one located in Missouri and one in Tennessee. While we have not experienced material disruptions to our egg supply due to such outbreaks, if a substantial portion of our farms or production facilities were affected by an outbreak of HPAI, or a disease like it, this could have a material and adverse effect on our business, financial condition and results of operations. Additionally, outbreaks of HPAI or similar diseases could limit our ability to utilize co-packers for our shell eggs, due to increased biosecurity measures that may be implemented by such co-packers in the event of an outbreak.

Even if our farms and production facilities were not directly impacted by avian disease, we may nevertheless be negatively affected by resulting governmental restrictions on our operations and the sale and distribution of our products, as well as negative publicity and impacted consumer perceptions for our industry. Such impacts could result in decreased consumer demand for our products and impact our operating results. Additionally, certain states in which our family farms are located have at times recommended or required that farms keep hens indoors to help limit exposure to avian influenza. Prolonged requirements to keep our hens indoors could adversely impact consumer perception of our egg products in comparison to those of our competitors, which could have a negative effect on our business, financial condition and operating results.

We could be adversely affected by a change in consumer preferences, perception and spending habits in the natural food industry generally and on animal-based products in particular, and failure to develop or enrich our product offerings or gain market acceptance of our new products could have a negative effect on our business.

We have positioned our brand to capitalize on growing consumer interest in natural, clean-label, traceable, ethically produced, great-tasting and nutritious foods. The market in which we operate is subject to changes in consumer preference, perception and spending habits. Our performance depends significantly on factors that may affect the level and pattern of consumer spending in the U.S. natural food industry market in which we operate. Such factors include consumer preference, consumer confidence, consumer income, consumer perception of the safety and quality of our products and shifts in the perceived value for our products relative to alternatives. Media coverage regarding the safety or quality of, or diet or health issues relating to, our products or the raw materials, ingredients or processes involved in their manufacturing may damage consumer confidence in our products. A general decline in the consumption of our products could occur at any time as a result of change in consumer preference, perception, confidence and spending habits, including an unwillingness to pay a premium or an inability to purchase our products due to financial hardship or increased price sensitivity, which may be exacerbated by economic uncertainty and general inflationary trends. For example, we and many of our customers face pressure from animal rights groups to require all companies that supply food products to operate their business in a manner that treats animals in conformity with certain standards developed or approved by these animal rights groups. If consumer preferences shift away from animal-based products for these reasons, because of a preference for plant-based products or otherwise, our business, financial condition and results of operations could be adversely affected.

The success of our products depends on a number of factors, including our ability to accurately anticipate changes in market demand and consumer preferences, our ability to differentiate the quality of our products from those of our competitors, and the effectiveness of our marketing and advertising campaigns for our products. We may not be successful in identifying trends in consumer preferences and developing products that respond to such trends in a timely manner. We also may not be able to effectively promote our products by our marketing and advertising campaigns and gain market acceptance. If our products fail to gain market acceptance, are restricted by regulatory requirements or have quality problems, we may not be able to fully recover costs and expenses incurred in our operation, and our business, financial condition or results of operations could be materially and adversely affected.

A limited number of distributors represent a substantial portion of our sales, and the loss of one or more distributor relationships that cannot be replaced in a timely manner may adversely affect our results of operations.

Our products are distributed through a broker-distributor-retailer network whereby brokers represent our products to distributors and retailers who in turn sell our products to consumers. We serve the majority of natural channel customers through food distributors, such as United Natural Foods, Inc., or UNFI, which purchases, stores, sells and delivers our products to retailer customers.

In the 13-week periods ended September 24, 2023 and September 25, 2022, UNFI (which was Whole Foods' primary distributor) accounted for approximately 24% and 24% of our net revenue, respectively. In the 39-week periods ended September 24, 2023 and September 25, 2022, UNFI accounted for approximately 25% and 27% of our net revenue, respectively. Since these distributors act as intermediaries between us and the retail grocers or foodservice providers, who generally select the distributors, we do not have short-term or long-term commitments or minimum purchase volumes in our contracts with distributors that ensure future sales of our products. These distributors are able to decide on the products carried, and they may limit the products available for our retail customers to purchase. We expect that most of our sales will be made through a core number of distributors for the foreseeable future. The loss of one or more of our significant distributor relationships that cannot be replaced in a timely manner (or at all), under similar terms and conditions, could adversely affect our business, financial condition and results of operations.

We are dependent on hatcheries and pullet farms to supply our farmer network with laying hens. Any disruption in that supply chain could materially and adversely affect our business, financial condition or results of operations.

Under the terms of our contracts with our network of family farms, while we do not own laying hens, we are generally responsible for coordinating the acquisition and delivery of laying hens to the farmers. In order to meet these obligations, we place orders for chicks directly with hatcheries intended to supply a future year's production of eggs at least a year in advance. Once the chicks are hatched, they are delivered to a network of pullet farms, who rear the chicks to approximately 16 to 18 weeks of age, at which time they are delivered to our network of family farms to begin laying eggs.

We work primarily with several pullet hatcheries that deliver chicks to a network of independent pullet farms. We do not have long-term supply contracts with these suppliers, and if a substantial portion of our current hatcheries or pullet farms were to cease doing business with us for any reason, we may have a difficult time finding and contracting with alternate hatcheries or pullet farms in sufficient scale to meet our needs, if at all. Pullet farms may also be subject to capacity constraints, and if we are unable to find independent pullet farms with sufficient capacity to receive chicks from our hatcheries, we may be unable to fulfill our customer commitments. Additionally, any disruption in the supply of laying hens for any reason, including agricultural disease such as avian influenza, natural disaster, fire, power interruption, work stoppage or other calamity, could have a material adverse effect on our business, financial condition and results of operations if we cannot replace these providers in a timely manner on acceptable terms or at all.

Elevated interest rates could adversely affect our business.

Our business and operating results could be harmed by factors such as the availability, terms of and increases in interest rates. These changes could cause our cost of doing business to increase and limit our ability to pursue growth opportunities. Disruptions and volatility in the global financial markets may lead to a contraction in credit availability, impacting our ability to finance our operations. A significant reduction in cash flows from operations or reduction in the availability of credit could materially and adversely affect our ability to achieve planned growth and operating results.

Elevated interest rates may also adversely impact the ability of our family farmers to access capital. We require our egg farmers to build and equip their farms to certain specifications, which requires a significant upfront capital investment, and any inability of farmers to obtain adequate financing on acceptable terms, including as a result of elevated interest rates, would impair their ability to partner with us. If our relationship with these egg farmers is disrupted, we may not be able to fully recover our investments in birds and feed, which would negatively impact our operating results.

Consolidation of retail customers or the loss of a significant retail customer could negatively impact our sales and profitability.

Our retail customers include natural channel and mainstream channel stores, which have been undergoing a consolidation in recent years. This consolidation has produced larger, more sophisticated organizations with increased negotiating and buying power that are able to resist price increases, as well as operate with lower inventories, decrease the number of brands that they carry and increase their emphasis on private-label products, all of which could negatively impact our business.

With certain of our retail customers, like Whole Foods, we sell our products through distributors. We are not able to precisely attribute our net revenue to a specific retailer for products sold through distributors. We rely on third-party data to calculate the portion of retail sales attributable to retailers, but this data is inherently imprecise because it is based on gross sales generated by our products sold at retailers, without accounting for price concessions, promotional activities or chargebacks, and because it measures retail sales for only the portion of our retailers serviced through distributors. Based on this third-party data and internal analysis, Whole Foods accounted for approximately 22% of our retail sales in each of the 13-week periods ended September 24, 2023 and September 25, 2022 and 23% and 24% for the 39-week periods then ended. Kroger accounted for approximately 11% and 12% of our retail sales in the 13-week periods ended September 24, 2023 and September 25, 2022, respectively and 11% and 12% for the 39-week periods then ended. The loss of Whole Foods, Kroger or any other large retail customer, or the reduction of purchasing levels or the cancellation of any business from Whole Foods, Kroger or any other large retail customer for an extended length of time could negatively impact our sales and profitability.

A retailer may take actions that affect us for reasons that we cannot always anticipate or control, such as their financial condition, changes in their business strategy or operations, the introduction of competing products or the perceived quality of our products. Despite operating in different channel segments, our retail customers sometimes compete for the same consumers. Because of actual or perceived conflicts resulting from this competition, retailers may take actions that negatively affect us. Consequently, our financial results may fluctuate significantly from period to period based on the actions of one or more significant retailers.

We source substantially all of our shell egg cartons from a sole source supplier, and any disruptions may impact our ability to sell our eggs.

We obtain substantially all of the packaging for our shell eggs from a sole-source supplier. Any disruption in the supply of our shell egg cartons, including as a result of interruptions to global shipping, could delay our production and hinder our ability to meet our commitments to customers. If we are unable to obtain a sufficient quantity of our packaging on commercially reasonable terms or in a timely manner, or if we are unable to obtain alternative sources, sales of our products could be delayed or we may be required to redesign our products. For example, in connection with increased demand for shell eggs in relation to the COVID-19 pandemic in 2020, the supplier of substantially all of our shell egg cartons began to prioritize packaging for core egg products (such as 12-count packages), and we separately experienced certain quality issues with our 18-count egg cartons. As a result of these events, and in order to otherwise meet demand for our products, we began using recycled plastic packaging for certain of our shell egg products. While this change in packaging did not materially impact our operations, there is no guarantee that we will not experience similar packaging issues in the future, or that any such packaging issues will not impact our ability to meet product demand for our shell eggs. For example, consumers may be less likely to accept products packaged using certain materials, or modified packaging may make it less likely for consumers to locate our products in stores. Any of these events could result in lost sales, price increases, reduced gross margins or damage to our customer relationships, which would have a material adverse effect on our business, financial condition and results of operations.

Because we rely on a limited number of third-party cold storage vendors to store our products, we may not be able to maintain or obtain the capacity necessary to store our products.

We rely on a limited number of cold storage providers to store our products. Our financial performance depends in large part on our ability to obtain adequate cold storage facilities services in a timely manner. We are not assured of continued cold storage capacities. Certain of our cold storage providers could discontinue or seek to alter their relationship with us. In addition, we are not assured of sufficient capacities of these providers commensurate with increased product demand.

Our brand and reputation may be diminished due to real or perceived quality or food safety issues with our products, which could have an adverse effect on our business, reputation, operating results and financial condition.

We believe our consumers rely on us to provide them with high-quality products. Therefore, real or perceived quality or food safety concerns or failures to comply with applicable food regulations and requirements, whether or not ultimately based on fact and whether or not involving us (such as incidents involving our competitors), could cause negative publicity and reduced confidence in our company, brand or products, which could in turn harm our reputation and sales, and could adversely affect our business, financial condition and operating results.

Our products may be subject to contamination by foreign materials or disease-producing organisms or pathogens, such as salmonella and E. coli. These organisms and pathogens are found generally in the environment and there is a risk that one or more could be present in our products, either as a result of food processing or as an inherent risk based on the nature of our products. These organisms and pathogens also can be introduced to our products as a result of improper handling at the further-processing, foodservice or consumer level. These risks may be controlled, but may not be eliminated, by adherence to current good manufacturing practices, or cGMPs, and finished product testing. Shipment of contaminated products, even if inadvertent, could result in a violation of law and lead to increased risk of exposure to product liability claims, product recalls, increased scrutiny by federal and state regulatory agencies, penalties and adverse publicity. In addition, products purchased from other producers, including co-manufacturers, could contain contaminants that we might inadvertently redistribute.

If our products become contaminated, or if there is a potential health risk associated with our products, we or our co-manufacturers might decide or need to recall a product. Any product recall could result in a loss of consumer confidence in our products and adversely affect our reputation with existing and potential customers. For example, in December 2019, our co-manufacturer for hard-boiled eggs conducted a voluntary Class I recall of all hard-boiled eggs produced at its facility, including ours, due to potential listeria contamination at the production facility. In connection with the recall, our co-manufacturer elected to permanently close the affected production facility and move all production to a different facility. As a result, we were unable to supply customers with hard-boiled eggs for a period of time in the first quarter of fiscal 2020, which led to the loss of certain customer accounts for this product, the revenues from which were immaterial in the aggregate.

We also have no control over our products once purchased by consumers. For example, consumers may store our products under conditions and for periods of time inconsistent with USDA, U.S. Food and Drug Administration, or FDA, and other governmental guidelines, which may adversely affect the quality and safety of our products.

If consumers do not perceive our products to be of high quality or safe, then the value of our brand would be diminished, and our business, results of operations and financial condition would be adversely affected. Any loss of confidence on the part of consumers in the quality and safety of our products would be difficult and costly to overcome. Any such adverse effect could be exacerbated by our market positioning as a socially conscious purveyor of high-quality products and may significantly reduce our brand value. Issues regarding the safety of any of our products, regardless of the cause, may have an adverse effect on our brand, reputation and operating results. Further, the growing use of social and digital media by us, our consumers and third parties increases the speed and extent that information or misinformation and opinions can be shared. Negative publicity about us, our brands or our products on social or digital media could seriously damage our brands and reputation. If we do not maintain the favorable perception of our brands, our business, financial condition and results of operations could be adversely affected.

We must expend resources to maintain consumer awareness of our brand, build brand loyalty and generate interest in our products. Our marketing strategies and channels will evolve and our programs may or may not be successful.

In order to remain competitive and expand and keep shelf placement for our products, we have increased and may continue to increase our marketing and advertising spending to maintain and increase consumer awareness, protect and grow our existing market share or promote new products, which could impact our operating results. Further advertising and promotional expenditures may be required to maintain or improve our brand's market position or to introduce new products to the market, and participants in our industry are increasingly engaging with non-traditional media, including consumer outreach through social media and web-based channels, which may not prove successful.

Increases in our marketing and advertising efforts may not maintain our current reputation or lead to increased brand awareness. Further, social media platforms frequently change the algorithms that determine the ranking and display of results of a user's search and may make other changes to the way results are displayed, or may increase the costs of such advertising, which can negatively affect the placement of our links and, therefore, reduce the number of visits to our website and social media channels or make such marketing cost prohibitive. In addition, social media platforms typically require compliance with their policies and procedures, which may be subject to change or new interpretation with limited ability to negotiate, which could negatively impact our marketing capabilities. If we are unable to maintain and promote a favorable perception of our brand and products on a cost-effective basis, our business, financial condition and results of operations could be adversely affected.

If we fail to develop and maintain our brand, our business could suffer.

We have developed a strong and trusted brand that has contributed significantly to the success of our business, and we believe our continued success depends on our ability to maintain and grow the value of the Vital Farms brand. Maintaining, promoting and positioning our brand and reputation will depend on, among other factors, the success of our product offerings, food safety, quality assurance, marketing and merchandising efforts, our continued focus on animal welfare, the environment and sustainability and our ability to provide a consistent, high-quality consumer and customer experience. Any negative publicity, regardless of its accuracy, could have an adverse effect on our business. Brand value is based on perceptions of subjective qualities, and any incident that erodes the loyalty of our consumers, customers, farmers, suppliers or co-manufacturers, including changes to our products or packaging, adverse publicity or a governmental investigation, litigation or regulatory enforcement action, could significantly reduce the value of our brand and significantly damage our business.

If we fail to cost-effectively acquire new consumers or retain our existing consumers, our business could be adversely affected.

Our success, and our ability to increase revenue and operate profitably, depends in part on our ability to cost-effectively acquire new consumers, retain existing consumers and keep existing consumers engaged so that they continue to purchase our products. While we intend to continue to invest significantly in sales and marketing to educate consumers about our brand, our values and our products, there is no assurance that these efforts will generate further demand for our products or expand our consumer base. Our ability to attract new consumers and retain our existing consumers will depend on the perceived value and quality of our products, consumers' desire to purchase ethically produced products at a premium, offerings of our competitors, our ability to offer new and relevant products and the effectiveness of our marketing efforts, among other items. For example, because our shell eggs are sold to consumers at a premium price point, when prices for commodity shell eggs fall relative to the price of our shell eggs, we may be unable to entice price-sensitive consumers to try our products. We may also lose loyal consumers to our competitors if we are unable to meet consumer demand in a timely manner. If we are unable to cost-effectively acquire new consumers, retain existing consumers and keep existing consumers engaged, our business, financial condition and operating results would be adversely affected.

Our sales and profits are dependent upon our ability to expand existing customer relationships and acquire new customers.

Our business depends on our ability to increase our household penetration, to expand the number of products sold through existing retail customers, to grow within the foodservice channel and to strengthen our product offerings through innovation in both new and existing categories. Any strategies we employ to pursue this growth are subject to numerous factors outside of our control. For example, retailers continue to aggressively market their private-label products, which could reduce demand for our products. The expansion of our business also depends on our ability over the long term to obtain customers in additional distribution channels, such as convenience, drugstore, club, military and international markets. Any growth in distribution channels may also affect our existing customer relationships and present additional challenges, including related to pricing strategies. Additionally, we may need to increase or reallocate spending on marketing and promotional activities, such as rebates, temporary price reductions, off-invoice discounts, retailer advertisements, product coupons and other trade activities, and these expenditures are subject to risks, including related to consumer acceptance of our efforts. Our failure to obtain new customers, or expand our business with existing customers, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Demand for shell eggs is subject to seasonal fluctuations, which can adversely impact our results of operations in certain quarters.

Demand for shell eggs fluctuates in response to seasonal factors. Shell egg demand tends to increase with the start of the school year and is highest prior to holiday periods, particularly Thanksgiving, Christmas and Easter, and lowest during the summer months. As a result of these seasonal and quarterly fluctuations, comparisons of our sales and operating results between different quarters within a single fiscal year are not necessarily meaningful comparisons. If we are not correct in predicting our future shell egg demand, we may experience a supply and demand shell egg imbalance. This imbalance between supply and demand can adversely impact our results of operations at certain times of the year.

Packaging costs are volatile, have recently increased and may continue to rise significantly, which may negatively impact our profitability, and any reduced availability of packaging supplies may otherwise impact our business.

Costs of packaging are volatile and can fluctuate due to conditions that are difficult to predict, including global competition for resources, weather conditions, consumer demand and changes in governmental trade. We saw higher packaging costs in fiscal 2022, and these elevated costs continued in the 13-week and 39-week periods ended September 24, 2023. Volatility in the prices of supplies we and our co-manufacturers purchase could increase our cost of sales and reduce our profitability. Moreover, although we have not seen significant decreases in volume due to previous price increases, we may not be able to implement further price increases for our products to cover any increased costs, and any price increases we do implement may result in lower consumer demand, decreased ability to attract new customers and lower sales volumes.

Additionally, if the availability of certain packaging supplies is limited due to factors beyond our control (including as a result of the public health pandemics or disruptions to global supply chains), or if packaging supplies do not meet our standards, we may make changes to our product packaging, which could negatively impact the perception of our brand. For example, in connection with increased demand for shell eggs in relation to the COVID-19 pandemic in 2020, the supplier of substantially all of our shell egg cartons began to prioritize packaging for core egg products (such as 12-count packages), and we separately experienced certain quality issues with our 18-count egg cartons. As a result of these events, and in order to otherwise meet demand for our products, we began using recycled plastic packaging for certain of our shell egg products. If we are not successful in managing our packaging costs or the supply of packaging that meets our standards to use for our products, if we are unable to increase our prices to cover increased costs or if such price increases reduce our sales volumes, any of these factors could adversely affect our business, financial condition, and results of operations.

Our net revenue and earnings may fluctuate as a result of price actions, promotional activities and chargebacks.

Retailers may require price concessions that would negatively impact our margins and our profitability. Alternatively, we may increase our prices to offset commodity inflation and potentially impact our margins and volume. In addition, we periodically offer sales incentives through various programs to customers and consumers, including rebates, temporary price reductions, off-invoice discounts, retailer advertisements, product coupons and other trade activities.

Additionally, while we continue to work to optimize supply chain logistics, we are occasionally charged fees and/or fines by retailers for various delivery and order discrepancies. While we challenge and vet these charges, we may be subject to such charges that could be detrimental to our performance, particularly when combined with the effects of increased freight costs or the other risks outlined in this section. The cost associated with promotions and chargebacks is estimated and recorded as a reduction in net revenue. These price concessions, promotional activities and chargebacks could adversely impact our net revenue and that changes in such activities could adversely impact period-over-period results. If we are not correct in predicting the performance of promotions, or if we are not correct in estimating chargebacks, our business, financial condition and results of operations would be adversely affected.

If we fail to retain and motivate members of our management team or other key crew members, or fail to attract, train, develop and retain additional qualified crew members to support our operations, our business and future growth prospects would be harmed.

Our success and future growth depend largely upon the continued services of our executive officers as well as our other key crew members. These executives and key crew members have been primarily responsible for determining the strategic direction of our business and for executing our growth strategy and are integral to our brand, culture and the reputation we enjoy with farmers, suppliers, co-manufacturers, distributors, customers and consumers. From time to time, there may be changes in our executive management team or other key crew members resulting from the hiring or departure of these personnel. The loss of one or more of our executive officers, or the failure by our executive team to effectively work with our crew members and lead our company, could harm our business.

In addition, our success depends in part upon our ability to attract, train, develop and retain a sufficient number of crew members who understand and appreciate our culture and can represent our brand effectively and establish credibility with our business partners and consumers. If we are unable to win in a competitive market for top talent capable of meeting our business needs and expectations, our business and brand image may be impaired. For example, in Springfield, Missouri, where Egg Central Station is located, there is a tight labor market. As a result of this tight labor market, we may be unable to attract and retain crew members with the skills we require. Additionally, a large portion of our existing and newly hired workforce outside of Egg Central Station is working remotely on a permanent basis. Although we believe we manage our operations to handle remote working conditions efficiently, it is possible that such remote work arrangements could adversely impact crew member cohesiveness, efficiency, professional development, operational agility and retention. Any failure to meet our staffing needs or any material increase in turnover rates of our crew members may adversely affect our business, financial condition and results of operations.

If we cannot maintain our company culture or focus on our purpose as we grow, our success and our business and competitive position may be harmed.

We believe our culture and our purpose have been key contributors to our success to date and that the critical nature of the platform that we provide promotes a sense of greater purpose and fulfillment in our crew members. Any failure to preserve our culture or focus on our purpose could negatively affect our ability to retain and recruit personnel, which is critical to our growth, and to effectively focus on and pursue our corporate objectives. As we continue to grow and develop the infrastructure of a public company, we may find it difficult to maintain these important values. We may also have difficulty maintaining our company culture as a large portion of our existing and newly hired workforce is working remotely on a permanent basis. If we fail to maintain our company culture or focus on our purpose, our business and competitive position may be harmed.

Our operations are geographically consolidated. A major tornado or other natural disaster within the region in which we operate could seriously disrupt our entire business.

Egg Central Station, our shell egg processing facility, is located in Springfield, Missouri. This facility and our network of family farms supporting our shell egg business are concentrated in the Midwestern portion of the Pasture Belt. The majority of cream for our butter is sourced from approximately 50 farms in Kansas and the panhandle region of Texas. Our butter is manufactured in close proximity to our farms in Kansas and packaged in Maine and Wisconsin. The impact of natural disasters such as tornadoes, drought or flood within these areas is difficult to predict, particularly given the potential of climate change to increase the frequency and intensity of such natural disasters, but a natural disaster could seriously disrupt our entire business. Our insurance may not adequately cover our losses and expenses in the event of a natural disaster. As a result, natural disasters within these areas could lead to substantial losses.

Our inability to maintain our GFSI and SQF Select Site certifications may negatively affect our reputation.

The Safe Quality Food Institute administers the SQF Program, which is a third-party auditing program that examines and certifies food producers with respect to certain aspects of the producer's business, including food safety, quality control and social, environmental and occupational health and safety management systems. The SQF Select Site certification is one of a number of available SQF certifications and involves both auditing for food safety issues and unannounced inspections by SQF personnel on an annual basis.

The Global Food Safety Initiative, or GFSI, is a private organization established and managed by The Consumer Goods Forum, an international trade association. GFSI operates a benchmarking scheme whereby certification bodies, such as the SQF Program, are "recognized" as meeting certain criteria maintained by GFSI. GFSI itself does not certify or accredit entities in the food industry.

SQF Select Site certification and the GFSI recognition of the SQF Program do not themselves have any independent legal significance and do not necessarily signal regulatory compliance. As a practice matter, however, certain retailers, including some of our largest customers, require SQF certification or certification by another GFSI-recognized program as a condition for doing business. Loss of SQF Select Site certification could impair our ability to do business with these customers, which could materially and adversely affect our business, financial condition and operating results.

Risks Related to Socioeconomic, Political and Environmental Factors

Disruptions in the worldwide economy may adversely affect our business, results of operations and financial condition.

Adverse and uncertain economic conditions, including uncertainty related to inflation, market volatility, outbreaks of contagious disease such as the COVID-19 pandemic, geopolitical tensions and wars, including the Russia-Ukraine war, or disruption in global financial and credit markets due to uncertainty in the banking system or bank failures, may impact distributor, retailer, foodservice and consumer demand for our products. In addition, our ability to manage normal commercial relationships with our farmers, suppliers, co-manufacturers, distributors, retailers, foodservice consumers and creditors may suffer. Consumers may shift purchases to lower-priced or other perceived value offerings during economic downturns. In particular, consumers may reduce the amount of our egg products that they purchase where there are more affordable products, including caged, cage-free and free-range egg and egg product offerings, which generally have lower retail prices than our eggs. Our products are sold to consumers at a premium price point, and in an economic downturn, consumers may choose to purchase private-label or commodity products rather than our products because they are generally less expensive.

An economic downturn may cause customers to be less receptive to price increases on our products. Adverse economic conditions may also affect our farmers. For example, recent inflationary pressures have resulted in increased costs for our farmers to build, equip and operate their farms. If our relationship with our existing farmers, or our ability to attract new farmers, is disrupted due to economic conditions or otherwise, our operating results may be adversely affected. Further, our foodservice product sales will be reduced if consumers reduce the amount of food they consume away from home at our foodservice customers, including as a result of inflationary concerns or other economic uncertainty. Distributors and customers may become more conservative in response to these conditions and seek to reduce their inventories. Our results of operations depend upon, among other things, our ability to maintain and increase sales volume with our existing distributors, retailer and foodservice customers, our ability to attract new consumers, the financial condition of our consumers and our ability to provide products that appeal to consumers at the right price. Prolonged unfavorable economic conditions may have an adverse effect on our sales and profitability.

Disruptions in international trade, including disruptions due to the COVID-19 pandemic and Russia-Ukraine war, may have a material adverse impact on us, our suppliers and our network of farms, including our ability to expand our operations as planned.

The COVID-19 pandemic, the Russia-Ukraine war and other geopolitical tensions have disrupted international trade, resulting in increased shipping costs and delays in the import and export of goods to and from the United States and other countries. Specifically, the increased demand for international shipping has resulted in shortages of shipping containers and delays at international ports. We, our suppliers and our network of family farms are dependent on equipment and other supplies imported from Europe and other locations. To the extent that disruptions to global shipping, including disruptions due to COVID-19 pandemic or geopolitical tensions or wars, such as the Russia-Ukraine war or ongoing conflicts in the Middle East, negatively impact our, our suppliers' and our network of family farms' ability to access necessary goods, we may not be able to expand our operations as planned, and our business, financial condition and results of operations would be materially and adversely affected.

A U.S. federal government shutdown could have a material adverse impact on our results of operations and financial condition.

The partial shutdown of the U.S. federal government that began in late 2018 and continued into 2019 adversely impacted many of our family farmers' ability to access capital, as these farmers receive funding through farm loan programs of the USDA Farm Service Agency. The partial shutdown also impacted our ability to receive governmental approvals for products and labeling of new products. Another U.S. federal government shutdown of similar or greater duration could similarly impact our business, which could have a material adverse effect on our results of operations and financial condition.

Public health pandemics, such as COVID-19, could have a material adverse impact on our business, results of operations and financial condition.

The impact of public health pandemics, such as COVID-19, on any of our farmers, suppliers, co-manufacturers, distributors or transportation or logistics providers may negatively affect the price and availability of our raw materials and impact our supply chain. If the disruptions caused by such pandemics, including interruptions to global shipping that may impact our and our farmers' and other suppliers' ability to access equipment and other materials, continue for an extended period of time, our ability to meet the demands of our customers or to expand as planned may be materially impacted. If we are forced to scale back hours of operation or close our facilities in response to public health threats, or if the effects of such threats or related mitigation measures make it difficult to adequately staff the facility to meet our capacity demands, our business, financial condition and results of operations would be materially and adversely affected. Uncertainties regarding the economic impacts of public health pandemics, such as COVID-19, may result in sustained market turmoil, which could also negatively impact our business, financial condition and results of operations.

Climate change, or legal, regulatory or market efforts to address climate change, may negatively affect our business and operations.

There is growing concern that carbon dioxide and other greenhouse gases emissions may have an adverse impact on global temperatures, weather conditions, and the frequency and severity of natural disasters. If climate change has a negative effect on agricultural productivity, we may be subject to decreased availability or less favorable pricing for certain raw materials that are necessary for our products, including corn, soybean meal and other feed ingredients. We may further be subject to unpredictable water availability due to the impact of climate change, and the lack of available water may adversely affect our business and operations.

Additionally, extreme weather and natural disasters exacerbated by climate change may impact our business. The egg farms in our network are all geographically located in a region that provides an environment conducive to year-round raising of chickens. However, if climate change negatively impacts the year-round habitability of this region for chickens, we may be subject to decreased availability or less favorable pricing for our eggs. Adverse weather conditions and natural disasters, including those caused by climate change, can adversely impact pasture conditions, leading to reduced yields and quality. For example, elevated summer temperatures in the Pasture Belt have contributed to lower-than-normal shell egg yield at certain of our farms. Adverse weather conditions and natural disasters may also impact the habitability and pasture conditions of the farms where we source the cream for our butter products. Further, we may incur increased transportation, storage and processing costs if we are unable to source products within a certain distance from our processing and co-manufacturing facilities due to the effects of climate change.

Governmental and market concern about climate change and its effects may result in additional legal or regulatory requirements to reduce or mitigate the effects of greenhouse gases or water usage. Such laws or regulations, to the extent applicable to us or our farmers, suppliers, co-manufacturers or service providers, may result in significant increases to our costs of operation, particularly the supply chain and distribution costs associated with our products.

Failure to adequately respond to stakeholder scrutiny related to environmental, social and governance (ESG) issues, or failure to achieve our ESG goals, could adversely impact our reputation and brand.

Our business faces increasing scrutiny related to ESG issues, including sustainable development, product packaging, renewable resources, environmental stewardship, supply chain management, climate change, diversity and inclusion, workplace conduct, human rights, philanthropy and support for local communities. In December 2022, we announced a series of ESG goals relating to, among other things, ecological impacts, diversity and inclusion, governance accountability and climate change. There is no assurance that we will be able to achieve our ESG goals. Failure to achieve our ESG goals could damage our reputation and brand image, and our business, financial condition and results of operations could be adversely impacted. Furthermore, there exists negative sentiment toward ESG measures among certain individuals and government institutions, and several states have enacted or proposed "anti-ESG" legislation. While these policies and legislation are generally targeted to investment advisory firms and mutual funds, as we continue to pursue our ESG goals and related initiatives, we could face a negative reaction that adversely impacts our business.

Implementation of our environmental and sustainability initiatives, including in connection with our ESG goals and annual impact report, may require certain financial expenditures and crew member resources, and if we are unable to meet our ESG goals or otherwise fail to meet stakeholder standards or expectations with respect to ESG issues, this could have a material adverse effect on our reputation and brand and negatively impact our relationship with our investors, crew members, farmers, suppliers, customers and consumers.

Risks Related to Legal and Government Regulation

Food safety and food-borne illness incidents or advertising or product mislabeling may materially and adversely affect our business by exposing us to lawsuits, product recalls or regulatory enforcement actions, increasing our operating costs and reducing demand for our product offerings.

Selling food for human consumption involves inherent legal and other risks, and there is increasing governmental scrutiny of and public awareness regarding food safety. Illness, injury or death related to allergens, food-borne illnesses, foreign material contamination or other food safety incidents caused by our products, or involving our farmers or other suppliers, could result in the disruption or discontinuance of sales of these products or our relationships with such farmers or suppliers, or otherwise result in increased operating costs, regulatory enforcement actions or harm to our reputation. For example, in December 2019, our co-manufacturer for hard-boiled eggs conducted a voluntary Class I recall of all hard-boiled eggs produced at its facility, including ours, due to a potential listeria contamination at the production facility. Our co-manufacturer elected to permanently close the affected production facility and move all production to a different facility, which did not have sufficient capacity to meet product demand. As a result, we were unable to supply customers with hard-boiled eggs for a period of time in the first quarter of fiscal 2020.

Shipment of adulterated or misbranded products, even if inadvertent, can result in criminal or civil liability. Such incidents could also expose us to product liability, negligence or other lawsuits, including consumer class action lawsuits. Any claims brought against us may exceed or be outside the scope of our existing or future insurance policy coverage or limits. Any judgment against us that is more than our policy limits or not covered by our insurance policies would have to be paid from our cash reserves, which would reduce our capital resources.

The occurrence of food-borne illnesses or other food safety incidents could also adversely affect the price and availability of affected raw materials, resulting in higher costs, disruptions in supply and a reduction in our sales. Furthermore, any instances of food contamination or regulatory noncompliance, whether or not caused by our actions, could compel us, our farms or suppliers, our distributors or our customers, depending on the circumstances, to conduct a recall in accordance with FDA or USDA regulations and policies, and comparable state laws. Food recalls could result in significant losses due to their costs, the destruction of product inventory, lost sales due to the unavailability of the product for a period of time and potential loss of existing distributors or customers and a potential negative impact on our ability to attract new customers due to negative consumer experiences or because of an adverse impact on our brand and reputation. The costs of a recall could be outside the scope of our existing or future insurance policy coverage or limits.

In addition, food companies have been subject to targeted, large-scale tampering as well as to opportunistic, individual product tampering, and we, like any food company, could be a target for product tampering. Forms of tampering could include the introduction of foreign material, chemical contaminants and pathological organisms into food products, as well as product substitution. Governmental regulations require companies like us to analyze, prepare and implement mitigation strategies specifically to address tampering designed to inflict widespread public health harm. If we do not adequately address the possibility, or any actual instance, of product tampering, we could face possible seizure or recall of our products and the imposition of civil or criminal sanctions, which could adversely affect our business, financial condition and operating results.

Our operations are subject to FDA and USDA federal regulation and state regulation, and there is no assurance that we will be in compliance with all applicable regulations.

Our operations are subject to extensive regulation by the FDA, the USDA and other federal, state and local authorities. With respect to eggs in particular, the FDA and the USDA split jurisdiction depending on the type of product involved. While the FDA has primary responsibility for the regulation of shell eggs, the USDA has primary responsibility for the regulation of dried, frozen or liquid eggs and other “egg products,” subject to certain exceptions. Specifically, our shell eggs, butter and hard-boiled egg products are subject to the requirements of the Federal Food, Drug, and Cosmetic Act, as amended, or the FDCA, and regulations promulgated thereunder by the FDA. This comprehensive regulatory program governs, among other things, the manufacturing, composition and ingredients, packaging, labeling and safety of most food products. The FDA requires that facilities that manufacture food products comply with a range of requirements, including but not limited to hazard analysis and preventative controls regulations, cGMPs and supplier verification requirements. Our shell egg operations are further subject to FDA regulatory requirements governing the production, storage and transportation of shell eggs for the control of salmonella. FDA-inspected processing facilities are subject to periodic and “for cause” inspection by federal, state and local authorities. In addition, certain of our products, such as our liquid whole egg products, are subject to regulation by the USDA, including facility registration, inspection, manufacturing and labeling requirements. We do not control the manufacturing processes of, and rely upon, our co-manufacturers for compliance with cGMPs and other regulatory requirements for the manufacturing of our products that is conducted by our co-manufacturers. If we or our co-manufacturers cannot successfully manufacture products that conform to our specifications and the strict regulatory requirements of the FDA, the USDA or others, we or they may be subject to adverse inspectional findings or enforcement actions, which could materially impact our ability to market our products, result in our co-manufacturers’ inability to continue manufacturing for us, result in a recall of our products that have already been distributed and result in damage to our brand and reputation. For example, in December 2019, our co-manufacturer for hard-boiled eggs conducted a voluntary Class I recall of all hard-boiled eggs produced at its facility, including ours, due to a potential listeria contamination at the production facility. We rely upon our co-manufacturers to maintain adequate quality control, quality assurance and qualified personnel. If the FDA, the USDA or another regulatory authority determines that we or these co-manufacturers have not complied with the applicable regulatory requirements, our business may be adversely impacted.

Our liquid whole eggs are subject to the requirements of the Egg Products Inspection Act, or EPIA, and regulations promulgated thereunder by the USDA. The USDA has comprehensive regulations in place that apply to establishments that break, dry and process shell eggs into liquid egg products. This regulatory scheme governs the manufacturing, processing, pasteurizations, packaging, labeling and safety of egg products. Under the EPIA and USDA regulations, establishments that manufacture egg products must comply with the USDA’s requirements for sanitation, temperature control, pasteurization and labeling. In addition, in September 2020, the USDA announced that it had finalized its Egg Products Inspection Rule. Pursuant to the regulatory requirements established by this rule, we anticipate that our co-manufacturers’ liquid whole egg establishment will be required to implement Hazard Analysis and Critical Control Point plans within two years after publication of the final rule in the Federal Register and will further be required to implement Sanitary Standard Operating Procedures within one year after publication in the Federal Register. We do not control the manufacturing processes of, and rely upon, our co-manufacturers for compliance with USDA regulations for the manufacturing of our liquid whole egg products, which is conducted by our co-manufacturers. If we or our co-manufacturers cannot successfully manufacture products that conform to our specifications and the strict regulatory requirements of the USDA or others, we or they may be subject to adverse inspectional findings or enforcement actions, which could materially impact our ability to market our products, could result in our co-manufacturers’ inability to continue manufacturing for us, or could result in a recall of our product that has already been distributed. In addition, we rely upon our co-manufacturers to maintain adequate quality control, quality assurance and qualified personnel. If the USDA or a comparable foreign regulatory authority determines that we or these co-manufacturers have not complied with the applicable regulatory requirements, our business may be materially impacted.

Our products that are labeled as “organic” are subject to the requirements of the Organic Foods Production Act, or OFPA, and the USDA’s National Organic Program, or NOP, regulations. The OFPA is a comprehensive regulatory scheme that mandates certain practices and prohibits other practices pertaining to the raising of animals and handling and processing of food products. We, and our network of family farms and co-manufacturers, contract with NOP-accredited certifying agents to ensure that our organic products are produced in compliance with the OFPA and NOP regulations. We do not control the farms where our products are raised and rely on the farms for compliance with the on-farm requirements of the OFPA and NOP regulations. Similarly, we do not control the manufacturing processes of, and we rely upon, our co-manufacturers for compliance with requirements of the OFPA and NOP regulations with respect to organic products handled and manufactured by our co-manufacturers. If we, the farms or the co-manufacturers cannot successfully raise and manufacture products that meet the strict regulatory requirements of the OFPA and the NOP, we or they may be subject to adverse inspectional findings or enforcement actions, which could materially impact our ability to market our products as “organic,” could result in the farms or co-manufacturers’ inability to continue to raise farm products or manufacture food for us, or we, the farms, or the co-manufacturer could lose the right to market products as “organic,” and subject us, the farms, or co-manufacturers to civil monetary penalties. If the USDA or a comparable foreign regulatory authority determines that we or these co-manufacturers have not complied with the applicable regulatory requirements, our business may be materially impacted.

We are also subject to state and local regulations, including product requirements, labeling requirements and import restrictions. For example, the State of Iowa requires that grocery stores which participate in the Special Supplement Nutrition Program for Women, Infants, and Children, and which sell eggs produced by chickens advertised as being housed in cage-free, free-range or enriched colony cage environments, also sell “conventional” eggs produced by chickens that are not so advertised. That regulation impacted the space allocation for non-caged eggs on the shelves of retailers in Iowa and their willingness to carry our eggs. In addition, one or more states could pass regulations that establish requirements that our products would not satisfy. If our products fail to meet such individual state standards or are restricted from being imported into a state by regulatory requirements, our business, financial condition or results of operations could be materially and adversely affected.

We seek to comply with applicable regulations through a combination of employing internal experience and expert personnel to ensure quality assurance compliance (i.e., assuring that our products are not adulterated or misbranded) and contracting with third-party laboratories that conduct analyses of products to ensure compliance with nutrition labeling requirements and to identify any potential contaminants before distribution. Failure by us, the farms or the co-manufacturers to comply with applicable laws and regulations or maintain permits, licenses or registrations relating to our or our co-manufacturers’ operations could subject us to civil remedies or penalties, including fines, injunctions, recalls or seizures, warning letters, restrictions on the marketing or manufacturing of products, or refusals to permit the import or export of products, as well as potential criminal sanctions, which could result in increased operating costs resulting in a material effect on our operating results and business. See the section titled “—Government Regulation” in Part I, Item 1, “Business,” of our Annual Report for further information on the regulations to which we are subject.

Changes in existing laws or regulations, or the adoption of new laws or regulations may increase our costs and otherwise adversely affect our business, results of operations and financial condition.

The manufacture and marketing of food products is highly regulated. We, our farmers, our suppliers and our co-manufacturers are subject to a variety of laws and regulations. These laws and regulations apply to many aspects of our business, including the manufacture, packaging, labeling, distribution, advertising, sale, quality and safety of our products, as well as the health and safety of our crew members and the protection of the environment.

In the United States, we are subject to regulation by various government agencies, including the FDA, the USDA, the Federal Trade Commission, or FTC, the Occupational Safety and Health Administration, and the Environmental Protection Agency, as well as various state and local agencies. We are also regulated outside the United States by various international regulatory bodies. In addition, we are subject to certain standards, such as GFSI standards and review by voluntary organizations, such as the Council of Better Business Bureaus’ National Advertising Division. We could incur costs, including fines, penalties and third-party claims, because of any violations of, or liabilities under, such requirements, including any competitor or consumer challenges relating to compliance with such requirements. For example, in connection with the marketing and advertisement of our products, we could be the target of claims relating to false or deceptive advertising, including under the auspices of the FTC and the consumer protection statutes of some states.

The regulatory environment in which we operate could change significantly and adversely in the future. Any change in manufacturing, labeling or packaging requirements for our products may lead to an increase in costs or interruptions in production, either of which could adversely affect our operations and financial condition. Changes in marketing or labeling requirements or standards related to our products could require us to revise or discontinue making certain claims or utilizing certain branding elements, which may make our products less appealing to consumers. New or revised government laws and regulations could result in additional compliance costs and, in the event of non-compliance, civil remedies, including fines, injunctions, withdrawals, recalls or seizures and confiscations, as well as potential criminal sanctions, any of which may adversely affect our business, financial condition and results of operations.

Failure by our network of family farms, suppliers of raw materials or co-manufacturers to comply with food safety, environmental or other laws and regulations, or with the specifications and requirements of our products, may disrupt our supply of products and adversely affect our business.

If any of our family farms, suppliers or co-manufacturers fail to comply with food safety, environmental, health and safety or other laws and regulations, or face allegations of non-compliance, their operations may be disrupted and our reputation could be harmed. Additionally, the farms and co-manufacturers are required to maintain the quality of our products and to comply with our standards and specifications. In the event of actual or alleged non-compliance, we might be forced to find alternative farms, suppliers or co-manufacturers and we may be subject to lawsuits and/or regulatory enforcement actions related to such non-compliance by the farms, suppliers and co-manufacturers. As a result, our supply of eggs and other raw materials or finished inventory could be disrupted or our costs could increase, which would adversely affect our business, results of operations and financial condition. The failure of any partner farmer or co-manufacturer to produce products that conform to our standards could adversely affect our reputation in the marketplace and result in product recalls, product liability claims, government or third-party actions and economic loss. For example, in December 2019, our co-manufacturer for hard-boiled eggs conducted a voluntary Class I recall of all hard-boiled eggs produced at its facility, including ours, due to a potential listeria contamination at the production facility. Additionally, actions we may take to mitigate the impact of any disruption or potential disruption in our supply of eggs and other raw materials or finished inventory, including increasing inventory in anticipation of a potential supply or production interruption, may adversely affect our business, financial condition and results of operations.

We are subject to stringent environmental regulation and potentially subject to environmental litigation, proceedings and investigations.

Our business operations and ownership and past and present operation of real property are subject to stringent federal, state, and local environmental laws and regulations pertaining to the discharge of materials into the environment and natural resources. Violation of these laws and regulations could lead to substantial liabilities, fines and penalties or to capital expenditures related to pollution control equipment that could have a material adverse effect on our business. We could also experience in the future significant opposition from third parties with respect to our business, including environmental non-governmental organizations, neighborhood groups and municipalities. Additionally, new matters or sites may be identified in the future, including in connection with the potential expansion of our processing capacity, that will require additional environmental investigation, assessment, or expenditures, which could cause additional capital expenditures. Future discovery of contamination of property underlying or in the vicinity of our present or future properties, facilities or waste disposal sites could require us to incur additional expenses, delays to our business and to our proposed construction. The occurrence of any of these events, the implementation of new laws and regulations, or stricter interpretation of existing laws or regulations could adversely affect our business, financial condition and results of operations.

Legal claims, government investigations or other regulatory enforcement actions could subject us to civil and criminal penalties.

We operate in a highly regulated environment with constantly evolving legal and regulatory frameworks. Consequently, we are subject to a heightened risk of legal claims, government investigations or other regulatory enforcement actions. Although we have implemented policies and procedures designed to ensure compliance with existing laws and regulations, there can be no assurance that our crew members, consultants, independent contractors, farmers, suppliers, co-manufacturers or distributors will not violate our policies and procedures. Moreover, a failure to maintain effective control processes could lead to violations, unintentional or otherwise, of laws and regulations. Legal claims, government investigations or regulatory enforcement actions arising out of our failure or alleged failure to comply with applicable laws and regulations could subject us to civil and criminal penalties that could materially and adversely affect our product sales, reputation, financial condition and operating results. In addition, the costs and other effects of defending potential and pending litigation and administrative actions against us may be difficult to determine and could adversely affect our financial condition and operating results.

Litigation or legal proceedings could expose us to significant liabilities and have a negative impact on our reputation or business.

We are not currently party to any material litigation. However, from time to time, we may be party to various claims and litigation proceedings. We evaluate these claims and litigation proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, we may establish reserves, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. For example, we have not established a reserve against any potential losses related to a false advertising lawsuit filed in federal court in May 2021 by alleged consumers of our eggs on behalf of themselves and a putative class, as no class has yet been certified and, at this point, we cannot reasonably estimate the possible loss or range of loss, if any. Actual outcomes or losses may differ materially from any assessments and estimates we may make.

Even when not merited, the defense of claims and litigation proceedings may divert our management’s attention, and we may incur significant expenses in defending these lawsuits. For example, we have expended both management time and monetary resources in defending the above-referenced lawsuit. The results of litigation and other legal proceedings are inherently uncertain, and adverse judgments or settlements in any of these legal disputes may result in adverse monetary damages, penalties or injunctive relief against us, which could have a material adverse effect on our financial position, cash flows or results of operations. Any claims or litigation, even if fully indemnified or insured, could damage our reputation and make it more difficult to compete effectively or to obtain adequate insurance in the future.

Furthermore, while we maintain insurance for certain potential liabilities, such insurance does not cover all types and amounts of potential liabilities and is subject to various exclusions and caps on amounts recoverable. Even if we believe a claim is covered by insurance, insurers may dispute our entitlement to recovery for a variety of potential reasons, which may affect the timing and, if the insurers prevail, the amount of our recovery.

Risks Related to Our Status as a Certified B Corporation and Public Benefit Corporation

Our status as a public benefit corporation and a Certified B Corporation may not result in the benefits that we anticipate.

We have elected to be classified as a public benefit corporation under Delaware law. As a public benefit corporation, we are required to balance the financial interests of our stockholders with the best interests of those stakeholders materially affected by our conduct, including particularly those affected by the specific benefit purposes set forth in our amended and restated certificate of incorporation. There is no assurance that the expected positive impact from being a public benefit corporation will be realized and our status as a public benefit corporation and compliance with our related obligations could negatively impact our ability to provide the highest possible return to our stockholders.

As a public benefit corporation, we are required to publicly disclose a report at least biennially on our overall public benefit performance and on our assessment of our success in achieving our specific public benefit purpose. If we are not timely or are unable to provide this report, or if the report is not viewed favorably by parties doing business with us or regulators or others reviewing our credentials, our reputation and status as a public benefit corporation may be harmed.

While not required by Delaware law or the terms of our certificate of incorporation, we have elected to have our social and environmental performance, accountability and transparency assessed against the proprietary criteria established by B Lab, an independent non-profit organization. As a result of this assessment, we have been designated as a “Certified B Corporation,” which refers to companies that are certified as meeting certain levels of social and environmental performance, accountability and transparency. The standards for Certified B Corporation certification are B Lab and may change over time, and our continued certification is at the sole discretion of B Lab. To maintain our certification, we are required to update our assessment and verify our updated score with B Lab every three years. We were most recently recertified as a Certified B Corporation in January 2022. Our reputation could be harmed if we lose our status as a Certified B Corporation, whether by our choice or by our failure to continue to meet the certification requirements, particularly if that failure or change were to create a perception that we are more focused on financial performance and are no longer as committed to the values shared by Certified B Corporations, or if our publicly reported Certified B Corporation score declines.

As a public benefit corporation, our duty to balance a variety of interests may result in actions that do not maximize stockholder value.

As a public benefit corporation, our board of directors has a duty to balance (i) the pecuniary interest of our stockholders, (ii) the best interests of those materially affected by our conduct and (iii) specific public benefits identified in our amended and restated certificate of incorporation. While we believe our public benefit designation and associated obligations will benefit our stockholders, in balancing these interests our board of directors may take actions that do not maximize stockholder value. Any benefits to stockholders resulting from our public benefit purposes may not materialize within the timeframe we expect or at all and may have negative effects. For example:

- we may choose to revise our policies in ways that we believe will be beneficial to stakeholders other than our stockholders, including farmers, suppliers, crew members and local communities, even though the changes may be costly;
- we may take actions, such as building state-of-the-art facilities with technology and quality control mechanisms that exceed the requirements of USDA and the FDA, even though these actions may be more costly than other alternatives;

- we may be influenced to pursue programs and services to demonstrate our commitment to the communities to which we serve and bringing ethical food to the table, even though there may be no immediate return to our stockholders; or
- in responding to a possible proposal to acquire the company, our board of directors may be influenced by the interests of stakeholders other than our stockholders, including farmers, suppliers, crew members and local communities, whose interests may be different from the interests of our stockholders.

We may be unable to fully realize the benefits we expect from actions taken to benefit our stakeholders, including farmers, suppliers, crew members and local communities, which could adversely affect our business, financial condition and results of operations, which in turn could cause our stock price to decline.

As a public benefit corporation, we may be subject to increased derivative litigation concerning our duty to balance stockholder and public benefit interests, the occurrence of which may have an adverse impact on our financial condition and results of operations.

As a Delaware public benefit corporation, our stockholders (if they, individually or collectively, own at least 2% of our outstanding capital stock or shares having at least \$2 million in market value (whichever is less)) are entitled to file a derivative lawsuit claiming that our directors failed to balance stockholder and public benefit interests. This potential liability does not exist for traditional corporations. Therefore, we may be subject to the possibility of increased derivative litigation, which would require the attention of management and, as a result, may adversely impact management's ability to effectively execute our strategy. Any such derivative litigation may be costly and have an adverse impact on our financial condition and results of operations.

Risks Related to Being a Public Company

If we fail to maintain an effective system of internal control over financial reporting in the future, we may not be able to accurately report our financial condition, results of operations or cash flows, which may adversely affect investor confidence in us and, as a result, the value of our common stock.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls over financial reporting, disclosure controls and procedures. We are required, under Section 404 of the Sarbanes-Oxley Act, or Section 404, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment must include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting that results in more than a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. Section 404 also generally requires an attestation from our independent registered public accounting firm on the effectiveness of our internal control over financial reporting. However, for as long as we remain an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012, or JOBS Act, we intend to take advantage of the exemption permitting us not to comply with the independent registered public accounting firm attestation requirement.

Our compliance with Section 404 will require that we continue to incur substantial expense and expend significant management efforts to ensure ongoing compliance. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. We cannot assure you that there will not be material weaknesses or significant deficiencies in our internal control over financial reporting in the future. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition, results of operations or cash flows. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm determines we have a material weakness or significant deficiency in our internal control over financial reporting once that firm conducts its Section 404 reviews, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline, and we could be subject to sanctions or investigations by The Nasdaq Stock Market LLC, or Nasdaq, the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

We are an “emerging growth company,” and we cannot be certain if the reduced reporting and disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including the auditor attestation requirements of Section 404, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Pursuant to Section 107 of the JOBS Act, as an emerging growth company, we have elected to use the extended transition period for complying with new or revised accounting standards until those standards would otherwise apply to private companies. As a result, our consolidated financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies, which may make our common stock less attractive to investors. In addition, if we cease to be an emerging growth company, we will no longer be able to use the extended transition period for complying with new or revised accounting standards and as a result will incur additional expenses.

We will remain an emerging growth company until the earliest of: (1) December 28, 2025; (2) the last day of the first fiscal year in which our annual gross revenue is \$1.235 billion or more; (3) the date on which we have, during the previous rolling three-year period, issued more than \$1 billion in non-convertible debt securities; and (4) the last day of the fiscal year in which the market value of our common stock held by non-affiliates exceeds \$700 million as of the last business day of the second fiscal quarter of such fiscal year.

We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. For example, if we do not adopt a new or revised accounting standard, our future results of operations may not be comparable to the results of operations of certain other companies in our industry that have adopted such standards. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock, and our stock price may be more volatile.

Risks Related to Information Technology and Intellectual Property

We rely on information technology systems and any inadequacy, failure, interruption or security breaches of those systems may harm our ability to effectively operate our business.

We are dependent on various information technology systems, including, but not limited to, networks, applications and outsourced services in connection with the operation of our business. A failure of our information technology systems to perform as we anticipate could disrupt our business and result in transaction errors, processing inefficiencies and loss of sales, causing our business to suffer. Further, because of our remote work policies, information that is normally protected, including company confidential information, may be less secure and we may be more vulnerable to cyberattacks. In addition, while we have not experienced a material information security breach in the last three years, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, viruses and security breaches. Any such damage or interruption could have an adverse effect on our business.

A cybersecurity incident or other technology disruptions could negatively impact our business and our relationships with customers and consumers.

We use computers in substantially all aspects of our business operations. We also use mobile devices, social networking and other online activities to connect with our crew members, farmers, suppliers, co-manufacturers, distributors, customers and consumers. Such uses give rise to cybersecurity risks, including security breaches, espionage, system disruption, theft and inadvertent release of information. Cybersecurity incidents are increasing in their frequency, sophistication and intensity, with third-party phishing and social engineering attacks in particular increasing in connection with the COVID-19 pandemic. Our business involves sensitive information and intellectual property, including customers’, distributors’ and suppliers’ information, private information about crew members and financial and strategic information about us and our business partners. Further, as we pursue new initiatives that improve our operations and cost structure, we also intend to expand and improve our information technologies, resulting in a larger technological presence and corresponding exposure to cybersecurity risk. If we fail to assess and identify cybersecurity risks associated with new initiatives, we may become increasingly vulnerable to such risks.

We maintain an online ordering platform for certain of our products, and in connection with this platform, our third-party service providers may collect, store, process, and use personal and payment information and other customer and consumer data. Any breach of our data security or that of our service providers could result in an unauthorized release or transfer of information or the loss of valuable business data or cause a disruption in our business. Any such breach could result in harm to our brand and exposure to losses, litigation or regulatory proceedings.

While we have implemented measures to prevent security breaches and cyber incidents, our preventative measures and incident response efforts may not be entirely effective. The theft, destruction, loss, misappropriation or release of sensitive information or intellectual property, or interference with our information technology systems or the technology systems of third parties on which we rely, could result in business disruption, negative publicity, brand damage, violation of privacy laws, loss of customers and distributors, potential liability and competitive disadvantage all of which could have an adverse effect on our business, financial condition or results of operations.

Such risks may be heightened by the fact that a large portion of our existing and newly hired crew members is working remotely on a permanent basis. Technologies and security systems in place at our crew members' homes may be less secure than those used in a physical office, and while we have implemented controls and safeguards to help protect our systems as our crew members work from home, we may nevertheless be subject to increased cybersecurity risk, which could expose us to risks of data or financial loss, resulting in an adverse impact on our business, financial condition or results of operations.

The loss of any registered trademark or other intellectual property could enable other companies to compete more effectively with us.

We utilize intellectual property in our business. Our trademarks are valuable assets that reinforce our brand and consumers' favorable perception of our products. We have invested a significant amount of money in establishing and promoting our trademarked brands. We also rely on unpatented proprietary expertise and copyright protection to develop and maintain our competitive position. Our continued success depends, to a significant degree, upon our ability to protect and preserve our intellectual property, including our trademarks and copyrights.

We rely on confidentiality agreements and trademark and copyright law to protect our intellectual property rights. Our confidentiality agreements with our crew members and certain of our consultants, contract employees, suppliers and independent contractors, including some of our co-manufacturers who use our formulations to manufacture our products, generally require that all information made known to them be kept strictly confidential. Further, some of our formulations have been developed by or with our suppliers and co-manufacturers. As a result, we may not be able to prevent others from using similar formulations.

We cannot be certain that the steps we have taken to protect our intellectual property rights are adequate, that our intellectual property rights can be successfully defended and asserted in the future or that third parties will not infringe upon or misappropriate any such rights. In addition, our trademark rights and related registrations may be challenged in the future and could be canceled or narrowed. Failure to protect our trademark rights could prevent us in the future from challenging third parties who use names and logos similar to our trademarks, which may in turn cause consumer confusion or negatively affect consumers' perception of our brand and products. Moreover, intellectual property disputes and proceedings and infringement claims may result in a significant distraction for management and significant expense, which may not be recoverable regardless of whether we are successful. Such proceedings may be protracted with no certainty of success, and an adverse outcome could subject us to liabilities, force us to cease use of certain trademarks or other intellectual property or force us to enter into licenses with others. Any one of these occurrences may have an adverse effect on our business, financial condition and results of operations.

Risks Related to Ownership of Our Common Stock and Other General Risks

Our stock price may be volatile, and the value of our common stock may decline.

The market price of our common stock may be highly volatile and may fluctuate or decline substantially as a result of a variety of factors, some of which are beyond our control, including those described elsewhere in this "Risk Factors" section.

Broad market and industry fluctuations, as well as general economic, political, regulatory and market conditions, may also negatively impact the market price of our common stock, particularly in light of uncertainties surrounding inflation, geopolitical tensions, disruption in global financial and credit markets due to uncertainty in the banking system or bank failures and public health pandemics such as COVID-19 and related impacts.

Insiders have substantial control over us and are able to influence corporate matters.

Based on the number of shares outstanding as of September 24, 2023, our directors, and officers hold, in the aggregate, approximately 25.7% of our outstanding capital stock. As a result, these stockholders are able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit stockholders' ability to influence corporate matters, including, but not limited to, delaying or preventing a third party from acquiring control over us.

Sales of our common stock in the public market could cause the market price of our common stock to decline.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. Many of our existing equity holders have substantial unrecognized gains on the value of the equity they hold, and therefore they may take steps to sell their shares or otherwise secure the unrecognized gains on those shares. We are unable to predict the timing of or the effect that such sales may have on the prevailing market price of our common stock.

In addition, as of September 24, 2023, there were 4,859,502 shares of common stock issuable upon the exercise of outstanding stock options or subject to vesting of outstanding restricted stock awards. We have registered all of the shares of common stock issuable upon exercise of outstanding stock options, vesting of outstanding restricted stock awards or other equity incentives we may grant in the future, for public resale under the Securities Act of 1933, as amended, or the Securities Act. The shares of common stock will become eligible for sale in the public market to the extent such options are exercised, subject to compliance with applicable securities laws.

Further, based on shares outstanding as of September 24, 2023, holders of approximately 13.7 million shares of our capital stock and certain shares that may be issued in the future upon exercise or vesting of outstanding equity awards, have rights, subject to some conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders.

We may be subject to significant liability that is not covered by insurance.

Although we believe that the extent of our insurance coverage is consistent with industry practice, any claim under our insurance policies may be subject to certain exceptions, may not be honored fully, in a timely manner, or at all, and we may not have purchased sufficient insurance to cover all losses incurred. If we were to incur substantial liabilities or if our business operations were interrupted for a substantial period of time, we could incur costs and suffer losses. Such inventory and business interruption losses may not be covered by our insurance policies. Any significant uninsured liability may require us to pay substantial amounts, which would adversely affect our cash position and results of operations. Additionally, in the future, insurance coverage may not be available to us at commercially acceptable premiums, or at all.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws, and provisions of Delaware law applicable to us as a public benefit corporation, may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, shares of undesignated preferred stock that may be senior to our common stock with terms, rights and preferences determined by our board of directors;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the chairperson of our board of directors, or our chief executive officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, with each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that our directors may be removed for cause only upon the vote of at least 66 2/3% of our outstanding shares of voting stock; and
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the General Corporation Law of the State of Delaware, or DGCL, which generally, subject to certain exceptions, prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder.

Also, as a public benefit corporation, our board of directors is required by the DCGL to manage or direct our business and affairs in a manner that balances the pecuniary interests of our stockholders, the best interests of those materially affected by our conduct, and the specific public benefits identified in our certificate of incorporation. Additionally, pursuant to our amended and restated certificate of incorporation, a vote of at least 66 2/3% of our outstanding shares of voting stock is required for matters directly or indirectly amending or removing our public benefit purpose, or to effect a merger or consolidation involving stock consideration with an entity that is not a public benefit corporation with an identical public benefit to ours. Such provisions could also limit the price that our investors might be willing to pay in the future for shares of our common stock, and they could deter potential acquirers of our company, thereby reducing the likelihood that holders of our common stock would receive a premium for your shares of our common stock in an acquisition.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware and, with respect to certain matters, the federal district courts of the United States of America as the exclusive forums for substantially all disputes between us and our stockholders, which could restrict our stockholders’ ability to choose the judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware (or, if and only if the Court of Chancery of the State of Delaware lacks subject matter jurisdiction, any state court located within the State of Delaware or, if and only if all such state courts lack subject matter jurisdiction, the federal district court for the District of Delaware) is the exclusive forum for certain actions or proceedings under Delaware law, statutory or common law, including: any derivative action or proceeding brought on our behalf; any action asserting a breach of a fiduciary duty; any action asserting a claim against us arising pursuant to the DGCL, our amended and restated certificate of incorporation or our amended and restated bylaws; any action as to which the DCGL confers jurisdiction to the court of Chancery of the State of Delaware; or any action asserting a claim against us that is governed by the internal affairs doctrine. The provisions would not apply to suits brought to enforce a duty or liability created by the Exchange Act of 1934, as amended, or the Exchange Act, or any other claim for which federal courts have exclusive jurisdiction. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations our amended and restated certificate of incorporation provides that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act.

These choice of forum provisions may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage lawsuits against us and our directors, officers and other employees. While Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring such a claim arising under the Securities Act against us and our directors, officers or other employees in a venue other than in the federal district courts of the United States of America. In such instance, we would expect our efforts to defend the validity and enforceability of such provisions may require further significant additional costs associated with resolving the dispute in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions, any of which could seriously harm our business.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

Use of Proceeds from the IPO

On August 4, 2020, we completed our IPO, from which we received net proceeds of approximately \$99.7 million, after deducting underwriting discounts and commissions of \$7.8 million and offering expenses of \$3.4 million. The offer and sale of the shares in our IPO were registered under the Securities Act on Registration Statement on Form S-1 (Registration No. 333-239772), which was declared effective on July 30, 2020.

There has been no material change in the planned use of proceeds from our IPO as described in the prospectus that formed a part of the Registration Statement. We invested the funds received in cash equivalents, other marketable securities and investments in accordance with our investment policy. As of September 24, 2023, we have used an aggregate of \$35.2 million of the IPO proceeds, including \$7.3 million to pay off our term loan, \$1.9 million to pay off our equipment loan in 2020 and \$26.0 million for the expansion of Egg Central Station.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Director and Officer Trading Arrangements

None of our directors or executive officers adopted, modified 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, during the 13-week period ended September 24, 2023.

Item 6. Exhibits

Exhibit Number	Description
3.1	<u>Amended and Restated Certificate of Incorporation, as currently in effect (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-39411), filed with the SEC on August 4, 2020).</u>
3.2	<u>Amended and Restated Bylaws, as currently in effect (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 001-39411), filed with the SEC on August 4, 2020).</u>
10.1	<u>Eleventh Amendment to Revolving Credit, Term Loan and Term Loan and Security Agreement, by and between the Registrant, the Borrowers party thereto, the Lenders party thereto and PNC Bank, National Association (as Lender and as Agent), dated July 26, 2023 (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (Filed No. 001-39411), filed with the SEC on August 3, 2023).</u>
31.1	<u>Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover page interactive data file (formatted as Inline XBRL and contained in Exhibit 101)

* Furnished herewith and not deemed to be "filed" for purposes of Section 18 of the Exchange Act, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

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 hereunto duly authorized.

Vital Farms, Inc.

Dated: November 2, 2023

By: /s/ Russell Diez-Canseco

Russell Diez-Canseco
President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 2, 2023

By: /s/ Thilo Wrede

Thilo Wrede
Chief Financial Officer
(Principal Financial Officer)

**ELEVENTH AMENDMENT TO
REVOLVING CREDIT, TERM LOAN, AND SECURITY AGREEMENT**

This Eleventh Amendment to Revolving Credit, Term Loan, and Security Agreement (the “Amendment”) is made this 26th day of July, 2023 by and among VITAL FARMS, INC., a corporation organized under the laws of the State of Delaware (“Vital Farms”), VITAL FARMS OF MISSOURI, LLC, a limited liability company organized under the laws of the State of Missouri (“Vital Farms Missouri” and together with Vital Farms and each Person joined as a borrower from time to time, collectively, the “Borrowers”, and each a “Borrower”), the financial institutions which are now or which hereafter become a party (collectively, the “Lenders” and each individually, a “Lender”) and PNC BANK, NATIONAL ASSOCIATION (“PNC”), as agent for Lenders (PNC, in such capacity, the “Agent”).

BACKGROUND

A. On October 4, 2017, Borrowers, Lenders, and Agent entered into a certain Revolving Credit, Term Loan, and Security Agreement (as same has been or may be amended, modified, renewed, extended, replaced or substituted from time to time, the “Loan Agreement”) to reflect certain financing arrangements between the parties thereto. The Loan Agreement and all other documents executed in connection therewith are collectively referred to as the “Existing Financing Agreements.” All capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Loan Agreement.

B. Borrowers have requested and Agent and Lenders have agreed, subject to the terms and conditions of this Amendment, to modify certain definitions, terms and conditions in the Loan Agreement.

NOW, THEREFORE, with the foregoing background hereinafter deemed incorporated by reference herein and made part hereof, the parties hereto, intending to be legally bound, promise and agree as follows:

1. Amendments to Loan Agreement. Upon the effectiveness of this Amendment, the Loan Agreement shall be amended as follows:

(a) Term: Section 13.1 of the Loan Agreement shall be amended and restated in its entirety as follows:

13.1. Term. This Agreement, which shall inure to the benefit of and shall be binding upon the respective successors and permitted assigns of each Borrower, Agent and each Lender, shall become effective on the date hereof and shall continue in full force and effect until April 2, 2025 (the “Term”) unless sooner terminated as herein provided. Borrowers may terminate this Agreement at any time upon thirty (30) days prior written notice to Agent upon payment in full of the Obligations other than in connection with a Change of Control.

2. Representations and Warranties. Each Borrower hereby:

(a) reaffirms all representations and warranties made to Agent and Lenders under the Loan Agreement and all of the other Existing Financing Agreements and confirms that all are true and correct in all respects as of the date hereof as if made on and as of the date hereof, except for representations and warranties which related exclusively to an earlier date, which shall be true and correct in all respects as of such earlier date;

(b) reaffirms all of the covenants contained in the Loan Agreement, covenants to abide thereby until all Advances, Obligations and other liabilities of Borrowers to Agent and Lenders under the Loan Agreement of whatever nature and whenever incurred, are satisfied and/or released by Agent and Lenders;

(c) represents and warrants that after giving effect to this Amendment, no Default or Event of Default has occurred and is continuing under any of the Existing Financing Agreements;

(d) represents and warrants that it has the authority and legal right to execute, deliver and carry out the terms of this Amendment, that such actions were duly authorized by all necessary corporate action and that the officers executing this Amendment on its behalf were similarly authorized and empowered, and that this Amendment does not contravene any provisions of its articles of incorporation, bylaws or other formation documents, or of any contract or agreement to which it is a party or by which any of its properties are bound; and

(e) represents and warrants that this Amendment and all assignments, instruments, documents, and agreements executed and delivered in connection herewith are valid, binding and enforceable in accordance with their respective terms except as such enforceability may be limited by equitable principles or any applicable bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally.

3. Conditions Precedent/Effectiveness Conditions. This Amendment shall be effective upon satisfaction of the following conditions precedent (all documents to be in form and substance satisfactory to Agent and Agent's counsel):

(a) Agent shall have received this Amendment fully executed by Borrowers;

(b) Agent shall have received a certificate of the Secretary or Assistant Secretary (or other equivalent officer, partner, member or manager) of each Borrower in form and substance satisfactory to Agent dated as of the date hereof which shall certify (i) the incumbency and signature of the officers of such Borrower authorized to execute this Amendment and the Other Documents, (ii) copies of the Organizational Documents of such Borrower as in effect on such date, complete with all amendments thereto or a certification that the Organizational Documents of such Borrower have not been amended or modified since last delivered to Agent and Lenders, as applicable, and (iii) the good standing (or equivalent status) of such Borrower in its jurisdiction of organization and each applicable jurisdiction where the conduct of such Borrower's business activities or the ownership of its properties necessitates qualification, as evidenced by good standing certificate(s) (or the equivalent thereof issued by

any applicable jurisdiction) dated not more than 30 days prior to the date hereof, issued by the Secretary of State or other appropriate official of each such jurisdiction; and

(c) Execution and/or delivery of all other agreements, instruments and documents requested by Agent to effectuate and implement the terms hereof.

4. Further Assurances. Borrowers hereby agree to take all such actions and to execute and/or deliver to Agent and Lenders all such documents, assignments, financing statements and other documents, as Agent and Lenders may reasonably require from time to time, to effectuate and implement the purposes of this Amendment.

5. Payment of Expenses. Borrowers shall pay or reimburse Agent and Lenders for their reasonable attorneys' fees and expenses in connection with the preparation, negotiation and execution of this Amendment and the documents provided for herein or related hereto.

6. Reaffirmation of Loan Agreement. Except as modified by the terms hereof, all of the terms and conditions of the Loan Agreement, as amended, and all other of the Existing Financing Agreements are hereby reaffirmed and shall continue in full force and effect as therein written.

7. Confirmation of Indebtedness. Borrowers confirm and acknowledge that as of the close of business on July 26, 2023, Borrowers were indebted to Agent and Lenders for the Advances under the Loan Agreement without any deduction, defense, setoff, claim or counterclaim, of any nature, in the aggregate principal amount of \$0 due on account of Revolving Advances, plus all fees, costs and expenses incurred to date in connection with the Loan Agreement and the Other Documents.

8. Release. In consideration of Agent's and Lenders' agreements contained in this Amendment, Borrowers hereby irrevocably release and forever discharge Agent, Lenders and their respective affiliates, subsidiaries, successors, assigns, partners, members, shareholders, directors, officers, employees, agents, consultants, attorneys and other professional advisors (each, a "Released Person") of and from any and all claims, suits, actions, investigations, proceedings or demands, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute or common law of any kind or character, known or unknown, which Borrowers ever had or now have against any Released Person which relates, directly or indirectly, to any acts or omissions of any Released Person relating to the Loan Agreement or any Other Document on or prior to the date hereof.

9. Miscellaneous.

(a) Third Party Rights. No rights are intended to be created hereunder for the benefit of any third party donee, creditor, or incidental beneficiary.

(b) Headings. The headings of any paragraph of this Amendment are for convenience only and shall not be used to interpret any provision hereof.

(c) Modifications. No modification hereof or any agreement referred to herein shall be binding or enforceable unless in writing and signed on behalf of the party against whom enforcement is sought.

(d) Governing Law. This Amendment shall, in accordance with Section 5-1401 of the General Obligations Law of the State of New York, be governed by and construed in accordance with the laws of the State of New York applied to contracts to be performed wholly within the State of New York.

(e) Counterparts. This Amendment may be executed in any number of counterparts and by facsimile or electronic transmission, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed and delivered by their duly authorized officers as of the date first above written.

BORROWERS:

VITAL FARMS, INC.

By: /s/ Thilo Wrede
Name: Thilo Wrede
Title: Chief Financial Officer

VITAL FARMS OF MISSOURI, LLC

By its Member: Vital Farms, Inc.

By: /s/ Thilo Wrede
Name: Thilo Wrede
Title: Chief Financial Officer

AGENT AND LENDER: **PNC BANK, NATIONAL ASSOCIATION**, as
Agent and Lender

By: /s/ Michael Cuccia
Name: Michael Cuccia
Title: Senior Vice President

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Russell Diez-Canseco, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vital Farms, 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
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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: November 2, 2023

By: /s/ Russell Diez-Canseco
Russell Diez-Canseco
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thilo Wrede, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vital Farms, 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
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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: November 2, 2023

By: /s/ Thilo Wrede
Thilo Wrede
Chief Financial Officer
(Principal Financial Officer)

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

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Russell Diez-Canseco, President and Chief Executive Officer of Vital Farms, Inc. (the "Company"), and Thilo Wrede, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended September 24, 2023, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 2, 2023

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 2nd day of November, 2023.

/s/ Russell Diez-Canseco

Russell Diez-Canseco
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Thilo Wrede

Thilo Wrede
Chief Financial Officer
(Principal Financial Officer)

This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Vital Farms, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.
