UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2021

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

For the transition period from __________ to __________

Commission File Number: 000-17363

LIFEWAY FOODS, INC.
(Exact Name of Registrant as Specified in its Charter)

Illinois	**36-3442829**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

6431 West Oakton, Morton Grove, IL 60053
(Address of Principal Executive Offices, Zip Code)

(847) 967-1010
(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, no par value	**LWAY**	**Nasdaq Global Market**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data file required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one)

Large accelerated Filer ☐	Accelerated Filer ☐
Non-accelerated Filer ☒	Smaller reporting company☒
Emerging growth company ☐	

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

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

Number of shares of Common Stock, no par value, outstanding as of November 10, 2021: 15,434,936.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2021 and December 31, 2020
(In thousands)

	September 30, 2021 Unaudited	December 31, 2020
Current assets		
Cash and cash equivalents	$ 10,018	$ 7,926
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of $1,290 and $1,350 at September 30, 2021 and December 31, 2020 respectively	9,828	8,002
Inventories, net	7,572	6,930
Prepaid expenses and other current assets	1,315	1,163
Refundable income taxes	415	31
Total current assets	**29,148**	**24,052**
Property, plant and equipment, net	**20,546**	**21,048**
Operating lease right-of-use asset	**255**	**345**
Intangible assets		
Goodwill and indefinite-lived intangibles	14,224	12,824
Other intangible assets, net	4,367	–
Total intangible assets	**18,591**	**12,824**
Other assets	1,800	1,800
Total assets	**$ 70,340**	**$ 60,069**
Current liabilities		
Current portion of note payable	$ 1,000	$ –
Accounts payable	7,867	5,592
Accrued expenses	3,872	2,196
Accrued income taxes	100	653
Total current liabilities	**12,839**	**8,441**
Line of credit	**2,777**	**2,768**
Note payable	**3,726**	**–**
Operating lease liabilities	**113**	**165**
Deferred income taxes, net	**1,764**	**1,764**
Other long-term liabilities	**62**	**77**
Total liabilities	**21,281**	**13,215**
Commitments and contingencies	–	–
Stockholders' equity		
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at September 30, 2021 and December 31, 2020	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 15,435 and 15,604 outstanding at September 30, 2021 and December 31, 2020, respectively	6,509	6,509
Paid-in capital	2,387	2,600
Treasury stock, at cost	(13,436)	(12,450)
Retained earnings	53,599	50,195
Total stockholders' equity	**49,059**	**46,854**
Total liabilities and stockholders' equity	**$ 70,340**	**$ 60,069**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the three and nine months ended September 30, 2021 and 2020
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Net sales	**$ 29,553**	**$ 26,039**	**$ 88,091**	**$ 76,441**
Cost of goods sold	21,915	17,710	63,273	53,613
Depreciation expense	645	752	2,099	2,326
Total cost of goods sold	22,560	18,462	65,372	55,939
Gross profit	**6,993**	**7,577**	**22,719**	**20,502**
Selling expenses	2,722	2,116	8,510	7,411
General and administrative	3,194	2,805	8,702	8,681
Amortization expense	33	39	33	117
Total operating expenses	**5,949**	**4,960**	**17,245**	**16,209**
Income from operations	**1,044**	**2,617**	**5,474**	**4,293**
Other income (expense):				
Interest expense	(30)	(27)	(72)	(96)
Gain on investments	–	–	2	4
Loss on sale of property and equipment	(5)	–	(88)	(28)
Other (expense) income, net	(2)	–	(61)	2
Total other income (expense)	(37)	(27)	(219)	(118)
Income before provision for income taxes	**1,007**	**2,590**	**5,255**	**4,175**
Provision for income taxes	527	764	1,851	1,223
Net income	**$ 480**	**$ 1,826**	**$ 3,404**	**$ 2,952**
Earnings (loss) per common share:				
Basic	$ 0.03	$ 0.12	$ 0.22	$ 0.19
Diluted	$ 0.03	$ 0.12	$ 0.22	$ 0.19
Weighted average common shares:				
Basic	15,473	15,602	15,572	15,595
Diluted	15,651	15,642	15,712	15,621

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(Unaudited)
(In thousands)

	Common Stock Issued Shares	Common Stock Issued $	Common Stock In treasury Shares	Common Stock In treasury $	Paid-In Capital	Retained Earnings	Total Equity
Balance, January 1, 2020	**17,274**	**$ 6,509**	**(1,564)**	**$ (12,601)**	**$ 2,380**	**$ 46,963**	**$ 43,251**
Issuance of common stock in connection with stock-based compensation	–	–	27	210	306	–	516
Treasury stock purchased	–	–	(179)	(405)	–	–	(405)
Stock-based compensation	–	–	–	–	62	–	62
Net income	–	–	–	–	–	146	146
Balance, March 31, 2020	**17,274**	**$ 6,509**	**(1,716)**	**$ (12,796)**	**$ 2,748**	**$ 47,109**	**$ 43,570**
Issuance of common stock in connection with stock-based compensation	–	–	34	248	(270)	–	(22)
Stock-based compensation	–	–	–	–	109	–	109
Net income	–	–	–	–	–	980	980
Balance, June 30, 2020	**17,274**	**$ 6,509**	**(1,682)**	**$ (12,548)**	**$ 2,587**	**$ 48,089**	**$ 44,637**
Issuance of common stock in connection with stock-based compensation	–	–	13	98	(98)	–	–
Stock-based compensation	–	–	–	–	43	–	43
Net income	–	–	–	–	–	1,826	1,826
Balance, September 30, 2020	**17,274**	**$ 6,509**	**(1,669)**	**$ (12,450)**	**$ 2,532**	**$ 49,915**	**$ 46,506**

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (continued)
(Unaudited)
(In thousands)

	Common Stock						
	Issued		In treasury		Paid-In	Retained	Total
	Shares	$	Shares	$	Capital	Earnings	Equity
Balance, January 1, 2021	**17,274**	**$ 6,509**	**(1,669)**	**$ (12,450)**	**$ 2,600**	**$ 50,195**	**$ 46,854**
Stock-based compensation	–	–	–	–	64	–	64
Net income	–	–	–	–	–	1,306	1,306
Balance, March 31, 2021	**17,274**	**$ 6,509**	**(1,669)**	**$ (12,450)**	**$ 2,664**	**$ 51,501**	**$ 48,224**
Issuance of common stock in connection with stock-based compensation	–	–	45	339	(463)	–	(124)
Stock-based compensation	–	–	–	–	287	–	287
Net income	–	–	–	–	–	1,618	1,618
Balance, June 30, 2021	**17,274**	**$ 6,509**	**(1,624)**	**$ (12,111)**	**$ 2,488**	**$ 53,119**	**$ 50,005**
Issuance of common stock in connection with stock-based compensation	–	–	35	258	(258)	–	–
Treasury stock purchased	–	–	(250)	(1,583)	–	–	(1,583)
Stock-based compensation	–	–	–	–	157	–	157
Net income	–	–	–	–	–	480	480
Balance, September 30, 2021	**17,274**	**$ 6,509**	**(1,839)**	**$ (13,436)**	**$ 2,387**	**$ 53,599**	**$ 49,059**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2021	**2020**
Cash flows from operating activities:		
Net income	**$ 3,404**	**$ 2,952**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	2,132	2,443
Non-cash interest expense	9	17
Non-cash rent expense	1	(38)
Bad debt expense	6	(3)
Deferred revenue	(23)	(73)
Stock-based compensation	608	274
Deferred income taxes	–	369
Loss (gain) on sale of property and equipment	88	28
(Increase) decrease in operating assets:		
Accounts receivable	(1,832)	(1,464)
Inventories	(642)	(80)
Refundable income taxes	(384)	492
Prepaid expenses and other current assets	(152)	248
Increase (decrease) in operating liabilities:		
Accounts payable	2,275	756
Accrued expenses	1,498	(595)
Accrued income taxes	(553)	22
Net cash provided by operating activities	**6,435**	**5,348**
Cash flows from investing activities:		
Purchases of property and equipment	(1,685)	(1,168)
Proceeds from sale of property and equipment	–	5
Acquisition, net of cash acquired	(5,800)	–
Net cash used in investing activities	**(7,485)**	**(1,163)**
Cash flows from financing activities:		
Purchase of treasury stock	(1,583)	(405)
Payment of deferred financing cost	(25)	–
Proceeds from note payable	5,000	–
Repayment of note payable	(250)	–
Net cash provided by (used in) financing activities	**3,142**	**(405)**
Net increase in cash and cash equivalents	**2,092**	**3,780**
Cash and cash equivalents at the beginning of the period	7,926	3,836
Cash and cash equivalents at the end of the period	**$ 10,018**	**$ 7,616**
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	$ 2,788	$ 335
Cash paid for interest	$ 60	$ 82
Non-cash investing activities		
Increase (decrease) in right-of-use assets and operating lease obligations	$ 45	$ (58)
Non-cash financing activities		
Issuance of common stock under equity incentive plans	$ –	$ 522

See accompanying notes to consolidated financial statements

Note 1 – Basis of Presentation

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") for interim financial information, and do not include all of the information and disclosures required for complete, audited financial statements. In the opinion of management, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. The consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. Results of operations for interim periods are not necessarily indicative of the results to be expected for other interim periods or the full year.

A detailed description of our significant accounting policies can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Principles of consolidation

Our consolidated financial statements include the accounts of Lifeway Foods, Inc. and all its wholly owned subsidiaries (collectively "Lifeway" or the "Company"). All significant intercompany accounts and transactions have been eliminated.

Note 2 – Significant Accounting Policies

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made in preparing the consolidated financial statements include the reserve for promotional allowances, the valuation of goodwill and intangible assets, stock-based and incentive compensation, and deferred income taxes.

Cash and cash equivalents

Lifeway considers cash and all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are stated at cost, which approximates or equals fair value due to their short-term nature.

Lifeway from time to time may have bank deposits in excess of insurance limits of the Federal Deposit Insurance Corporation. Lifeway has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to its cash and cash equivalents.

The Company has $580 of restricted cash which is included in cash and cash equivalents as of September 30, 2021. The restricted cash balance represents escrow funds deposited by Lifeway in connection with the September 18, 2021 acquisition of certain assets of Glen Oaks Farms, Inc. The funds are security for the liability and indemnity obligations of seller as defined under the asset purchase agreement. The funds will remain in escrow for twelve months from the acquisition closing date, at which time the funds, less any amounts for outstanding seller obligations, will be remitted to the sellers.

Revenue recognition

We sell food and beverage products across select product categories to customers predominantly within the United States (see Note 12, Segments, Products and Customers). We also sell bulk cream, a byproduct of our fluid milk manufacturing process. In accordance with ASC 606, Revenue from Contracts with Customers, we recognize revenue when control over the products transfers to our customers, which generally occurs upon delivery to our customers or their common carriers. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services, using the five-step method required by ASC 606.

For the Company, the contract is the approved sales order, which may also be supplemented by other agreements that formalize various terms and conditions with customers. The Company applies judgment in determining the customer’s ability and intention to pay, which is based on a variety of factors including the customer’s historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer, which is the delivery of food products which provide immediate benefit to the customer.

We account for product shipping and handling as fulfillment activities with revenues for these activities recorded within net revenue and costs recorded within cost of goods sold. Any taxes collected on behalf of government authorities are excluded from net revenues.

Variable consideration, which typically includes volume-based rebates, known or expected pricing or revenue adjustments, such as trade discounts, allowances for non-saleable products, product returns, trade incentives and coupon redemption, is estimated utilizing the most likely amount method.

Key sales terms, such as pricing and quantities ordered, are established on a frequent basis such that most customer arrangements and related incentives have a one year or shorter duration. As such, we do not capitalize contract inception costs and we capitalize product fulfillment costs in accordance with U.S. GAAP and our inventory policies. We do not have any significant deferred revenue or unbilled receivables at the end of a period. We generally do not receive noncash consideration for the sale of goods, nor do we grant payment financing terms greater than one year.

Advertising and promotional costs

Lifeway expenses advertising costs as incurred. For the nine months ended September 30, 2021 and 2020 total advertising expenses were $2,892 and $1,700 respectively. For the three months ended September 30, 2021 and 2020 total advertising expenses were $726 and $380, respectively.

Recent accounting pronouncements

Adopted

In December 2019, the FASB issued Accounting Standards Update ("ASU") No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The new guidance is intended to enhance and simplify various aspects of the accounting for income taxes. The new guidance eliminates certain exceptions to the general approach to the income tax accounting model and adds new guidance to reduce the complexity in accounting for income taxes. The Company adopted this guidance on January 1, 2021. The adoption of this standard did not have a material impact on our consolidated financial statements and disclosures.

Issued but not yet effective

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The new guidance provides a single comprehensive accounting model on revenue recognition for contracts with customers and requires that the acquirer in a business combination recognize and measure contract assets and liabilities acquired in a business combination in accordance with Topic 606 (Revenue from Contracts with Customers). The amendments in this ASU are effective for fiscal years beginning after December 15, 2022. Early adoption is permitted, including adoption in an interim period. With early adoption, the amendments are applied retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of adoption and prospectively to all business combinations that occur on or after the date of initial application. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The guidance will be effective prospectively as of March 12, 2020 through December 31, 2022 and interim periods within those fiscal years. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, in November 2018 issued an amendment, ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, and in November 2019 issued two amendments, ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates, and ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses. The series of new guidance amends the impairment model by requiring entities to use a forward-looking approach based on expected losses rather than incurred losses to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses. The guidance should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. The guidance is effective for annual periods beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

Note 3 – Inventories, net

Inventories consisted of the following:

	September 30, 2021	December 31, 2020
Ingredients	$ 2,120	$ 1,725
Packaging	2,632	2,234
Finished goods	2,820	2,971
Total inventories	$ 7,572	$ 6,930

Note 4 – Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

	September 30, 2021	December 31, 2020
Land	$ 1,565	$ 1,565
Buildings and improvements	18,082	17,834
Machinery and equipment	31,959	31,707
Vehicles	778	778
Office equipment	895	857
Construction in process	399	228
	53,678	52,969
Less accumulated depreciation	(33,132)	(31,921)
Total property, plant and equipment, net	$ 20,546	$ 21,048

Note 5 – Goodwill and Intangible Assets

Goodwill and indefinite-lived intangible assets consisted of the following:

	Goodwill	Brand Names	Total
Balance at December 31, 2020, before accumulated impairment loses	$ 10,368	$ 3,700	$ 14,068
Accumulated impairment loses	(1,244)	–	(1,244)
Balance at December 31, 2020	9,124	3,700	12,824
Acquisition (1)	1,400	–	1,400
Balance at September 30, 2021	$ 10,524	$ 3,700	$ 14,224

(1) Refer to Note 15 for additional information regarding acquisition-related adjustments to goodwill

Finite-lived Intangible Assets

Other intangible assets, net consisted of the following:

	September 30, 2021			December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Recipes	$ 44	$ (44)	$ –	$ 44	$ (44)	$ –
Customer lists and other customer related intangibles	4,529	(4,529)	–	4,529	(4,529)	–
Customer relationship	3,385	(1,003)	2,382	985	(985)	–
Brand names	4,248	(2,263)	1,985	2,248	(2,248)	–
Formula	438	(438)	–	438	(438)	–
Total finite lived intangible assets	$ 12,644	$ (8,277)	$ 4,367	$ 8,244	$ (8,244)	$ –

Note 6 – Accrued Expenses

Accrued expenses consisted of the following:

	September 30, 2021	**December 31, 2020**
Payroll and incentive compensation	$ 3,095	$ 1,366
Real estate taxes	334	341
Current portion of operating lease liabilities	142	179
Other	301	310
Total accrued expenses	$ 3,872	$ 2,196

Note 7 – Debt

Note payable consisted of the following:

	September 30, 2021		December 31, 2020	
Variable rate term loan due August 18, 2026. Principal and interest (2.15% at September 30, 2021) payable monthly.	$	4,750	$	–
Unamortized deferred financing costs		(24)		–
Total note payable		4,726		–
Less current portion		(1,000)		–
Total long-term portion	$	3,726	$	–

Credit Agreement

On August 18, 2021, Lifeway entered into the Fourth Modification (the "Fourth Modification") to the Amended and Restated Loan and Security Agreement (as amended and modified from time to time, the "Credit Agreement" and, as amended and modified by the Fourth Modification, the "Modified Credit Agreement") with its existing lender and certain of its subsidiaries. The Fourth Modification amends the Credit Agreement to provide for, among other things, a $5 million term loan by the existing lender to the borrowers to be repaid in quarterly installments of principal and interest over a term of five years (the "Term Loan"). The termination date of the Term Loan is August 18, 2026, unless earlier terminated. Except for the addition of the Term Loan, the Credit Agreement remains substantively unchanged and in full force and effect.

As amended, all outstanding amounts under the revolving line of credit and term loan bear interest, at Lifeway's election, at either the lender Base Rate (the Prime Rate minus 1.00%) or the LIBOR plus 1.95%, payable monthly in arrears. Lifeway is also required to pay a quarterly unused revolving line of credit fee of 0.20% and, in conjunction with the issuance of any letters of credit, a letter of credit fee of 0.20%.

Revolving Credit Facility

As of September 30, 2021, we had $2,777 outstanding under the Revolving Credit Facility. We had $2,223 available for future borrowings under the Revolving Credit Facility as of September 30, 2021. Lifeway's interest rate on debt outstanding under the Revolving Credit Facility as of September 30, 2021 was 2.15%.

Deferred Financing Costs

As of September 30, 2021, net unamortized deferred financing costs of $24 related to the term loan were included as a direct deduction from outstanding long-term debt.

Except as described above, as amended, the Modified Credit Agreement remains substantively unchanged and in full force and effect, including customary representations, warranties, and covenants on the part of Lifeway, including financial covenants requiring us to maintain a fixed charge coverage ratio of no less than 1.25 to 1.00 each of the fiscal quarters ending through the expiration date. The Modified Credit Agreement continues to provide for events of default, including failure to repay principal and interest when due and failure to perform or violation of the provisions or covenants of the agreement, as a result of which amounts due under the Modified Credit Agreement may be accelerated. The loans and all other amounts due and owed under the Credit Agreement and related documents are secured by substantially all of our assets.

We were in compliance with the fixed charge coverage ratio and minimum working capital covenants at September 30, 2021.

Note 8 – Leases

Lifeway had operating leases for two retail stores for its Lifeway Kefir Shop subsidiary which includes fixed base rent payments as well as variable rent payments to reimburse the landlord for operating expenses and taxes. The Company terminated the operating lease of one of the Lifeway Kefir Shop retail stores during July 2021. The Company terminated its office space leases in September 2020. The Company also leases certain machinery and equipment with fixed base rent payments and variable costs based on usage. Remaining lease terms for these leases range from less than 1 year to 5 years. Some of our leases include options to extend the leases for up to 5 years and have been included in our calculation of the right-of-use asset and lease liabilities. Lifeway includes only fixed payments for lease components in the measurement of the right-of-use asset and lease liability. Variable lease payments are those that vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time. There are no residual value guarantees. We do not currently have leases which meet the finance lease classification as defined under ASC 842.

We do not record leases with an initial term of 12 months or less on the balance sheet. Expense for these short-term leases is recorded on a straight-line basis over the lease term. Total lease expense was $245 and $392 (including short term leases) for the nine months ended September 30, 2021 and 2020, respectively. Total lease expense was $76 and $81 (including short term leases) for the three months ended September 30, 2021 and 2020, respectively.

Lifeway treats contracts as a lease when the contract conveys the right to use a physically distinct asset for a period of time in exchange for consideration, we direct the use of the asset and obtain substantially all the economic benefits of the asset.

Right-of-use assets and lease liabilities are measured and recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. We have elected the practical expedient to combine lease and non-lease components into a single component for all of its leases. For many of our leases such as real estate leases, we are unable to determine an implicit rate; therefore, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments for those leases. We include options to extend or terminate the lease in the measurement of the right-of-use asset and lease liability when it is reasonably certain that we will exercise such options. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

Future maturities of lease liabilities were as follows:

Year	Operating Leases
Three months ended December 31, 2021	$ 45
2022	149
2023	47
2024	30
2025	18
Thereafter	6
Total lease payments	295
Less: Interest	(40)
Present value of lease liabilities	$ 255

The weighted-average remaining lease term for our operating leases was 2.5 years as of September 30, 2021. The weighted average discount rate of our operating leases was 12.10% as of September 30, 2021. Cash paid for amounts included in the measurement of lease liabilities was $153 and $328 the nine months ended September 30, 2021 and 2020, respectively. Cash paid for amounts included in the measurement of lease liabilities was $46 and $56 for the three months ended September 30, 2021 and 2020, respectively.

Note 9 – Commitments and contingencies

Litigation

Lifeway is engaged in various legal actions, claims, audits, and proceedings arising in the normal course of business, including commercial disputes, product liabilities, intellectual property matters and employment-related matters resulting from our business activities.

We record accruals for outstanding legal matters when we believe it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. We evaluate, on a periodic basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, we do not establish an accrued liability. Currently, none of our accruals for outstanding legal matters are material individually or in the aggregate to our financial position and it is management's opinion that the ultimate resolution of these outstanding legal matters will not have a material adverse effect on our business, financial condition, results of operations, or cash flows. However, if we ultimately are required to make payments in connection with an adverse outcome, it is possible that it could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Lifeway's contingencies are subject to substantial uncertainties, including for each such contingency the following, among other factors: (i) the procedural status of the case; (ii) whether the case has or may be certified as a class action suit; (iii) the outcome of preliminary motions; (iv) the impact of discovery; (v) whether there are significant factual issues to be determined or resolved; (vi) whether the proceedings involve a large number of parties and/or parties and claims in multiple jurisdictions or jurisdictions in which the relevant laws are complex or unclear; (vii) the extent of potential damages, which are often unspecified or indeterminate; and (viii) the status of settlement discussions, if any, and the settlement posture of the parties. Consequently, Lifeway cannot predict with any reasonable certainty the timing or outcome of such contingencies, and we are unable to estimate a possible loss or range of loss.

Note 10 – Income taxes

For each interim period, Lifeway estimates the effective tax rate expected to be applicable for the full year and applies that rate to income before provision for income taxes for the period. The effective tax rate for the nine months ended September 30, 2021 was 35.2% compared to 29.3% for the nine months ended September 30, 2020. The effective tax rate for the three months ended September 30, 2021 was 52.3% compared to 29.5% for the three months ended September 30, 2020. Our effective tax rate may change from period to period based on recurring and non-recurring factors including the relative mix of pre-tax earnings (or losses), the underlying income tax rates applicable to various state and local taxing jurisdictions, enacted tax legislation, the impact of non-deductible items, changes in valuation allowances, and the expiration of the statute of limitations in relation to unrecognized tax benefits. We record discrete income tax items such as enacted tax rate changes and completed tax audits in the period in which they occur.

On March 27, 2020, the "Coronavirus Aid, Relief, and Economic Security Act" (the CARES Act) was enacted. The CARES act features several tax provisions and other measures that assist businesses impacted by the economic effects of the COVID-19 pandemic. The significant tax provisions include an increase in the limitation of the tax deduction for interest expense from 30% to 50% of adjusted earnings in 2019 and 2020, a five-year carryback allowance for net operating losses generated in tax years 2018-2020, increased charitable contribution limitations to 25% of taxable income in 2020, and a retroactive technical correction to the 2017 Tax Cuts and Jobs Act that makes qualified improvement property placed in service after December 31, 2017 eligible for bonus depreciation. The Company has recorded a $245 income tax benefit related to the net operating loss carryback provisions of the CARES Act for the nine months ended September 30, 2020.

Unrecognized tax benefits were $98 and $93 at September 30, 2021 and 2020, respectively. We do not expect material changes to our unrecognized tax benefits during the next twelve months. The Company believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If a tax audit is resolved in a manner inconsistent with its expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. We do not expect material changes to our unrecognized tax benefits during the next twelve months.

Note 11 – Stock-based and Other Compensation

In December 2015, Lifeway stockholders approved the 2015 Omnibus Incentive Plan, which authorized the issuance of an aggregate of 3.5 million shares to satisfy awards of stock options, stock appreciation rights, unrestricted stock, restricted stock, restricted stock units, performance shares and performance units to qualifying employees. Under the Plan, the Board or its Audit and Corporate Governance Committee approves stock awards to executive officers and certain senior executives, generally in the form of restricted stock or performance shares. The number of performance shares that participants may earn depends on the extent to which the corresponding performance goals have been achieved. Stock awards generally vest over a three-year performance or service period. At September 30, 2021, 3.281 million shares remain available under the Omnibus Incentive Plan. While we plan to continue to issue awards pursuant to the Plan at least annually, we may choose to suspend the issuance of new awards in the future and may grant additional awards at any time including issuing special grants of restricted stock, restricted stock units, and stock options to attract and retain new and existing executives.

Stock Options

The following table summarizes stock option activity during the nine months ended September 30, 2021:

	Options	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding at December 31, 2020	41	$ 10.42	5.22	$ –
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	–	–	–	–
Outstanding at September 30, 2021	41	$ 10.42	4.47	$ –
Exercisable at September 30, 2021	41	$ 10.42	4.47	$ –

As of December 31, 2019, all outstanding options were vested and there was no remaining unearned compensation expense.

Restricted Stock Awards

A Restricted Stock Award ("RSA") represents the right to receive one share of common stock in the future. RSAs have no exercise price. The grant date fair value of the awards is equal to our closing stock price on the grant date. The following table summarizes RSA activity during the three months ended September 30, 2021.

	RSA's
Outstanding at December 31, 2020	78
Granted	25
Shares issued upon vesting	(43)
Forfeited	–
Outstanding at September 30, 2021	60
Weighted average grant date fair value per share outstanding	$ 3.80

We expense RSA's over the service period. For the nine months ended September 30, 2021 and 2020 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $106 and $51, respectively. For the nine months ended September 30, 2021 and 2020 tax-related benefits of $31 and $14, respectively, were also recognized. For the three months ended September 30, 2021 and 2020 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $37 and $28, respectively. For the three months ended September 30, 2021 and 2020 tax-related benefits of $11 and $8, respectively, were also recognized. As of September 30, 2021, the total remaining unearned compensation related to non-vested RSA's was $159, which is expected to be amortized over the weighted-average remaining service period of 1.38 years.

Long-Term Incentive Plan Compensation

Lifeway established long-term incentive-based compensation programs for fiscal year 2017 (the "2017 Plan"), fiscal year 2019 (the "2019 Plan"), and for fiscal year 2021 (the "2021 Plan") for certain senior executives and key employees (the "participants"). Under the 2017 Plan, long-term incentive compensation is based on Lifeway's achievement of certain sales and adjusted EBITDA performance levels versus respective targets established by the Board for each fiscal year. Under the 2019 Plan, long-term equity incentive compensation is based on Lifeway's achievement of four strategic milestones over a three-year period from Fiscal 2019 through Fiscal 2021. Under the 2021 Plan, long-term incentive compensation is based on Lifeway's achievement of adjusted EBITDA performance versus the respective target established by the Board for 2021.

2017 Plan

Under the 2017 Plan, collectively the participants had the opportunity to earn cash and equity-based incentive compensation in amounts ranging from $0 to $11,025 depending on Lifeway's performance levels compared to the respective targets and the participants performance compared to their individual objectives. The equity portion of the incentive compensation is payable in restricted stock that vests one-third in each of the three years from the 2017 grant dates. For the nine months ended September 30, 2021 and 2020, $0 and $49 was expensed under the 2017 Plan as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2021 and 2020, $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of September 30, 2021, there was no remaining expense.

2019 Plan

Under the 2019 Plan, collectively the participants can earn equity-based incentive compensation in amounts ranging from $0 to $1,776 depending on Lifeway's performance levels compared to the respective targets. The equity-based incentive compensation is payable in restricted stock that vests 50% of unvested shares in year one, 50% of unvested shares in year two, and 100% of remaining unvested shares in year three from the 2019 grant date. For the nine months ended September 30, 2021 and 2020, $89 and $90 was expensed under the 2019 Plan as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2021 and 2020, $35 and $1 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively.

2019 Retention Award

During Q1 2019, we awarded a special retention grant (the "2019 Retention Award") of restricted stock to certain senior executives and key employees (the "participants"). The equity-based incentive compensation is payable in restricted stock that vests one-third in March 2019, one-third in March 2020 and one-third in March 2021. For the nine months ended September 30, 2021 and 2020, $0 and $73 was expensed under the 2020 Retention Award as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2021 and 2020, $0 and $15 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of September 30, 2021, there was no remaining expense.

2020 CEO Incentive Award

During the fourth quarter 2020, we awarded a long-term equity-based incentive of $750 to our Chief Executive Officer (the "2020 CEO Award") depending on Lifeways 2020 performance levels compared to the respective targets. The equity-based incentive compensation is payable in restricted stock that vests one-third in April 2022, one-third in April 2023, and one-third in April 2024. The issuance of vested equity awards is subject to approval under the Stock Purchase Agreement dated October 1, 1999. For the nine months ended September 30, 2021 and 2020, $255 and $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2021 and 2020, $85 and $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of September 30, 2021, the total remaining unearned compensation was $445, of which $87 will be recognized in 2021, $229 in 2022, $105 in 2023, and $24 in 2024, respectively, subject to vesting. During Q2 2021, the number of shares awarded became fixed and determinable. Therefore, the award liability was reclassified from long-term liabilities to paid in capital.

2021 Equity Award

Under the 2021 Plan, collectively the participants can earn equity-based incentive compensation in amounts ranging from $0 to $1,069 depending on Lifeway's achievement of the respective financial target. The equity-based incentive compensation is payable in restricted stock that is expected to vest one-third in March 2022, one-third in March 2023, and one-third in March 2024. For the nine months ended September 30, 2021, $150 was expensed under the 2021 Plan as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2021, $150 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of September 30, 2021, the total remaining unearned compensation was $919, of which $236 will be recognized in 2021, $474 in 2022, $181 in 2023, and $28 in 2024, respectively, subject to vesting. As of September 30, 2021, the number of shares to be awarded is not fixed and determinable. Therefore, the liability is classified in accrued expenses and other long-term liabilities as of September 30, 2021. When the number of shares awarded becomes fixed and determinable, the award liability will be reclassified from liabilities to paid in capital.

Retirement Benefits

Lifeway has a defined contribution plan which is available to substantially all full-time employees. Under the terms of the plan, we match employee contributions under a prescribed formula. For the nine months ended September 30, 2021 and 2020 total contribution expense recognized in the consolidated statements of operations was $315 and $307, respectively. For the three months ended September 30, 2021 and 2020 total contribution expense recognized in the consolidated statements of operations was $97 and $93, respectively.

Note 12 – Segments, Products and Customers

Lifeway's primary product is drinkable kefir, a cultured dairy product. Lifeway Kefir is tart and tangy, high in protein, calcium and vitamin D. Thanks to our exclusive blend of kefir cultures, each cup of kefir contains 12 live and active cultures and 25 to 30 billion beneficial CFU (Colony Forming Units) at the time of manufacture.

We manufacture (directly or through co-packers) and market products under the Lifeway, Fresh Made, and Glen Oaks Farms brand names, as well as under private labels on behalf of certain customers.

Our product categories are:

- Drinkable Kefir, sold in a variety of organic and non-organic sizes, flavors, and types, including low-fat, non-fat, whole milk, protein, and BioKefir (a 3.5 oz. kefir with additional probiotic cultures).
- European-style soft cheeses, including farmer cheese, white cheese, and Sweet Kiss.
- Cream and other, which consists primarily of cream, a byproduct of making our kefir.
- ProBugs, a line of kefir products designed for children.
- Drinkable Yogurt, sold in a variety of sizes and flavors.
- Other Dairy, which includes Cupped Kefir and Icelandic Skyr, a line of strained kefir and yogurt products in resealable cups.
- Frozen Kefir, available in soft serve and pint-size containers.

Lifeway has determined that it has one reportable segment based on how our chief operating decision maker manages the business and in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing our performance, has been identified collectively as the Chief Financial Officer, the Chief Operating Officer, the Chief Executive Officer, and Chairperson of the board of directors. Substantially all of our consolidated revenues relate to the sale of cultured dairy products that we produce using the same processes and materials and are sold to consumers through a common network of distributors and retailers in the United States.

Net sales of products by category were as follows for the nine months ended September 30:

	2021		2020	
	$	%	$	%
Drinkable Kefir other than ProBugs	$ 72,204	82%	$ 61,155	80%
Cheese	9,158	11%	9,619	13%
Cream and other	2,568	3%	2,120	3%
ProBugs Kefir	2,197	2%	1,946	2%
Other dairy	1,010	1%	1,171	1%
Drinkable yogurt	739	1%	–	0%
Frozen Kefir (a)	215	0%	430	1%
Net Sales	$ 88,091	100%	$ 76,441	100%

(a) Includes Lifeway Kefir Shop sales

Net sales of products by category were as follows for the three months ended September 30:

	2021			2020		
	$		%	$		%
Drinkable Kefir other than ProBugs	$	23,831	81%	$	21,152	81%
Cheese		2,937	10%		3,105	12%
Cream and other		877	3%		688	3%
ProBugs Kefir		766	3%		629	2%
Drinkable yogurt		739	2%		–	0%
Other dairy		312	1%		363	1%
Frozen Kefir (a)		91	0%		102	1%
Net Sales	$	29,553	100%	$	26,039	100%

(a) Includes Lifeway Kefir Shop sales

Significant Customers – Sales are predominately to companies in the retail food industry located within the United States. Two major customers accounted for approximately 23% and 21% of net sales for the nine months ended September 30, 2021 and 2020, respectively. Two major customers accounted for approximately 23% and 22% of net sales for the three months ended September 30, 2021 and 2020, respectively.

Note 13 – Related Party Transactions

Lifeway obtains consulting services from the Chairperson of its board of directors. On December 28, 2020, Lifeway entered into an amended and restated consulting agreement (the "Agreement"), effective as of December 31, 2020, with the Chairperson. Under the terms and conditions of the Agreement, the Chairperson will continue to provide consulting services with respect to, among other things, our business strategy, international expansion and product management and expansion. For the services, the Company will pay an annual service fee of $500. The Chairperson will also be eligible for an annual performance fee target of $500 based on the achievement of specified performance criteria. The Chairpersons annual service fee and target bonus amounts are subject to periodic change by the Compensation Committee of the Company's Board of Directors on 30 days' prior written notice to the Chairperson. The Agreement shall continue until either party provides at least a 10-day written notice of termination.

Service fees earned by the Chairperson are included in general and administrative expenses in the accompanying consolidated statements of operations and were $375 and $750 during each of the nine months ended September 30, 2021 and 2020, respectively. Service fees earned are included in general and administrative expenses in the accompanying consolidated statements of operations and were $125 and $250 during each of the three months ended September 30, 2021 and 2020, respectively. During the nine months ended September 30, 2021, the Company recorded $282 related to estimated earnings under the fiscal year 2021 annual performance fee target. During the three months ended September 30, 2021, the Company recorded $94 related to estimated earnings under the fiscal year 2021 annual performance fee target. This amount is included in general and administrative expenses in the accompanying consolidated statements of operations.

Lifeway is also a party to a royalty agreement with the Chairperson of its board of directors under which we pay the Chairperson a royalty based on the sale of certain Lifeway products, not to exceed $50 in any fiscal month. Royalties earned by the Chairperson are included in selling expenses in the accompanying consolidated statements of operations and were $450 during the nine months ended September 30, 2021 and 2020. Royalties earned are included in selling expenses in the accompanying consolidated statements of operations and were $150 during each of the three months ended September 30, 2021 and 2020.

Note 14 – COVID-19

The ultimate impact that the COVID-19 pandemic or any future pandemic or disease outbreak will have on our business and our consolidated results of operations is uncertain.

To date we have seen increased customer and consumer demand for our products as consumers initially began pantry loading and have increased their at-home consumption as a result of social distancing and stay-at-home and work-from-home mandates and recommendations. However, this increased customer and consumer demand may decrease in the coming months if and when the need for social distancing and stay-at-home and work-from-home mandates and recommendations decrease, and we are unable to predict the nature and timing of when that impact may occur, if at all.

Although to date we have not experienced supply chain constraints, and we have continued to be able to fully satisfy customer and consumer demand for our products, the continued unprecedented demand for food and other consumer packaged goods products as a result of the COVID-19 pandemic or any future pandemic may limit the availability of, or increase the cost of, ingredients, packaging and other raw materials necessary to produce our products, and our operations may be negatively impacted. Additionally, pandemics or disease outbreaks could result in a widespread health crisis that could adversely affect economies and financial markets, consumer spending and confidence levels resulting in an economic downturn that could affect customer and consumer demand for our products.

Our efforts to manage and mitigate these factors may be unsuccessful, and the effectiveness of these efforts depends on factors beyond our control, including the duration and severity of any pandemic or disease outbreak, as well as third party actions taken to contain its spread and mitigate public health effects.

The ultimate impact of the COVID-19 pandemic on our business will depend on many factors, including, among others, the duration of social distancing and stay-at-home and work-from-home mandates and recommendations and whether additional waves of COVID-19 or different variants of COVID-19 will affect the United States and other markets, our ability and the ability of our suppliers to continue to operate our and their manufacturing facilities and maintain the supply chain without material disruption and procure ingredients, packaging and other raw materials when needed despite unprecedented demand in the food industry, and the extent to which macroeconomic conditions resulting from the pandemic and the pace of the subsequent recovery may impact consumer eating and shopping habits. We cannot predict the duration or scope of the disruption. Therefore, the financial impact cannot be reasonably estimated at this time.

Note 15 – Business Acquisition

On August 18, 2021, the Company completed the acquisition of certain assets of GlenOaks Farms Inc. for a purchase price of $5,800 in cash. Glen Oaks is engaged in the manufacture, development, and sale of probiotic drinkable yogurt. The acquisition of GlenOaks Farms initiates Lifeway's expansion outside of kefir and into drinkable yogurt. The current distribution of GlenOaks Farms in western U.S. retailers is strategically significant for Lifeway as the Company seeks to further grow its presence in this region. From a portfolio perspective, it complements the Company's eastern U.S. presence with the Freshmade brand and national strength with Lifeway. The acquisition was funded through the proceeds of a $5,000 note payable (see Note 7) and the Company's existing cash resources.

Management considers the purchase of Glenoaks Farms Inc. to consist of inputs, processes and outputs and has accounted for the purchase as a business combination. The acquisition was accounted for under the acquisition method of accounting and the results of operations were included in our consolidated statement of operations from the date of acquisition. Included in the Company's consolidated statements of operations are the acquisition's net sales of $739 and income before income taxes of approximately $112 from the date of acquisition through September 30, 2021. The Company incurred approximately $83 in acquisition-related costs which are expensed as incurred and included in general and administrative expense on the consolidated statement of operations. Pro-forma results of operation have not been presented as the effect would not be material to the Company's results of operations for any periods presented.

The following table summarizes the preliminary purchase price allocation of the fair value of intangible assets acquired and liabilities assumed:

	$
Customer relationships	2,400
Brand name	2,000
Goodwill	1,400
Assets acquired	5,800
Liabilities assumed	–
Total purchase price	5,800

The purchase price allocation in the table above is preliminary and subject to the finalization of the Company's valuation analysis. The fair value for the customer relationships at the acquisition date were determined using the excess earnings method under the income approach. The brand name fair value was determined using the relief from royalty method. The customer relationship and brand name intangible assets have an estimated life of 15 years and will be amortized over that period. The fair value measurements of intangible assets are based on significant unobservable inputs, and thus represent Level 3 inputs. Significant assumptions used in assessing the fair values of intangible assets include discounted future cash flows, customer attrition rates, and royalty rates. Goodwill arises principally as a result of category expansion opportunities to better serve its regional and national customers. The goodwill resulting from the acquisition is tax deductible.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in this Form 10-Q is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements, the accompanying notes, and the MD&A included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (the "Form 10-K"). Unless otherwise specified, any description of "our", "we", and "us" in this MD&A refer to Lifeway Foods, Inc. and our subsidiaries.

Cautionary Statement Regarding Forward-Looking Statements

In addition to historical information, this quarterly report contains "forward-looking" statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of words such as "anticipate," "from time to time," "intend," "plan," "ongoing," "realize," "should," "may," "could," "believe," "future," "depend," "expect," "will," "result," "can," "remain," "assurance," "subject to," "require," "limit," "impose," "guarantee," "restrict," "continue," "become," "predict," "likely," "opportunities," "effect," "change," "predict," and "estimate," and similar terms or terminology, or the negative of such terms or other comparable terminology. Examples of forward-looking statements include, among others, statements we make regarding:

- Expectations of the effect on our financial condition of claims, litigation, environmental costs, contingent liabilities and governmental and regulatory investigations and proceedings;
- Strategy for acquisitions, customer retention, growth, product development, market position, financial results and reserves; Estimates of the amounts of sales allowances and discounts to our customers and consumers;
- Our belief that we will maintain compliance with our loan agreements and have sufficient liquidity to fund our business operations.

Forward looking statements are based on management's beliefs, assumptions, estimates and observations of future events based on information available to our management at the time the statements are made and include any statements that do not relate to any historical or current fact. These statements are not guarantees of future performance and they involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, implied or forecast by our forward-looking statements due in part to the risks, uncertainties, and assumptions that include:

- The actions of our competitors and customers, including those related to price competition;
- The decisions of customers or consumers;
- Our ability to successfully implement our business strategy;
- Changes in the pricing of commodities
- The effects of government regulation;
- The impact of the COVID-19 outbreak on our business, suppliers, consumers, customers, and employees;
- Disruptions to our supply chain, or our manufacturing and distribution capabilities, including those due to cybersecurity threats and the COVD-19 outbreak; and
- Such other factors as discussed throughout Part I, Item 1 "Business"; Part I, Item 1A "Risk Factors"; and Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2020 and that are described from time to time in our filings with the SEC.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. We intend these forward-looking statements to speak only at the date made. Except as otherwise required to be disclosed in periodic reports required to be filed by public companies with the SEC pursuant to the SEC's rules, we have no duty to update these statements, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Recent Developments

COVID-19 Pandemic Impact

In December 2019, a novel coronavirus disease ("COVID-19") was first reported and subsequently characterized by the World Health Organization ("WHO") as a pandemic in March 2020. In an effort to reduce the global transmission of COVID-19, various policies and initiatives have been implemented by governments around the world, including orders to close businesses not deemed "essential", shelter-in-place orders enacted by state and local governments, and the practice of social distancing measures when engaging in essential activities. Lifeway has seen increased orders from retail customers in response to increased consumer demand for food at home in response to government mandated social distancing and shelter in place orders in the United States and the immune boosting quality of our products.

Local, state, and national governments continue to emphasize the importance of food supply during this pandemic and asked that food manufacturers and retailers remain open to meet the needs of our communities. The health and safety of our employees throughout this pandemic is paramount, and we have taken numerous steps to keep our employees safe including enhanced sanitation protocols, implementation of social distancing measures at our manufacturing operations, masks and personal protective equipment for employees across our facilities, preventative temperature screenings across all manufacturing locations, the rollout of new benefits that help support our employees and their families, and remote work arrangements for administrative support functions to comply with shelter-in-place orders. In addition, a cross-functional task force has been established to monitor and coordinate the Company's response to COVID-19.

During the first quarter of 2020, Management, anticipating the spread of COVID-19 and its effects, implemented a plan to mitigate effects of COVID-19 on supply and transportation of materials used to make and package our products, staffing, and transportation of our products to customers. Management’s proactive planning allowed the Company to avoid disruption to its manufacturing facilities and production, transportation, and sales and to meet the increased demand without delay. The Company has full production capacity available at all locations at this time and does not anticipate manufacturing or staffing disruptions in the near term.

Results of Operations

Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

The following table presents certain information concerning our financial results, including information presented as a percentage of consolidated net sales:

	Three Months Ended September 30,			
	2021		2020	
	$	%	$	%
Net sales	29,553	100.0%	26,039	100.0%
Cost of goods sold	21,915	74.1%	17,710	68.0%
Depreciation expense	645	2.2%	752	2.9%
Total cost of goods sold	22,560	76.3%	18,462	70.9%
Gross profit	6,993	23.7%	7,577	29.1%
Selling expenses	2,722	9.2%	2,116	8.1%
General & administrative expenses	3,194	10.9%	2,805	10.8%
Amortization expense	33	0.1%	39	0.2%
Total operating expenses	**5,949**	**20.2%**	**4,960**	**19.1%**
Income from operations	**1,044**	**3.5%**	**2,617**	**10.0%**
Other income (expense):				
Interest expense	(30)	(0.1%)	(27)	(0.1%)
Gain on investments	–	0.0%	–	0.0%
Loss on sales or property and equipment	(5)	0.0%	–	(0.0%)
Other Income, net	(2)	0.0%	–	0.0%
Total other income (expense)	(37)	(0.1%)	(27)	(0.1%)
Income before provision for income taxes	**1,007**	**3.4%**	**2,590**	**9.9%**
Provision for income taxes	527	1.8%	764	2.9%
Net income	**480**	**1.6%**	**1,826**	**7.0%**

Net Sales

Net sales finished at $29,553 for the three-month period ended September 30, 2021, an increase of $3,514 or 13.5% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir, and to a lesser extent the favorable impact of our acquisition of Glen Oaks Farms during the third quarter of 2021.

Gross Profit

Gross profit as a percentage of net sales was 23.7% during the three-month period ended September 30, 2021. Gross profit percentage was 29.1% in the prior year. The decrease versus the prior year was primarily due to the unfavorable impact of milk pricing, and to a lesser extent the increased pricing of freight and other inputs, partially offset by the decrease in depreciation expense.

Selling Expenses

Selling expenses increased by $606 to $2,722 during the three-month period ended September 30, 2021 from $2,116 during the same period in 2020. The increase from prior year is due to increased investment in advertising and marketing programs.

General and Administrative Expenses

General and administrative expenses increased $389 to $3,194 during the three-month period ended September 30, 2021 from $2,805 during the same period in 2020. The increase is primarily a result of incentive compensation expense.

Provision for Income Taxes

The provision for income taxes includes federal, state and local income taxes. The provision for income taxes was $527 and $764 during the three months ended September 30, 2021 and 2020, respectively.

Our effective income tax rate for the three months ended September 30, 2021 was 52.3% compared to 29.5% in the same period last year. The statutory Federal and state tax rates remained consistent from 2020 to 2021. The Company has a number of items that are nondeductible or are discrete adjustments to tax expense during the quarter. Although similar items were reflected in 2021, the percentage increased due to nondeductible compensation expense under Section 162(m).

Section 162(m) of the Internal Revenue Code (the "Code") limits the deductibility of compensation paid to certain of our executives. Under Section 162(m), no tax deduction in taxable years beginning after December 31, 2017 is allowed for compensation paid to any covered employee to the extent that the total compensation for that covered employee exceeds $1,000,000 in any taxable year.

Our effective tax rate may change from period to period based on recurring and non-recurring factors including the relative mix of pre-tax earnings (or losses), the underlying income tax rates applicable to various state and local taxing jurisdictions, enacted tax legislation, the impact of non-deductible items, changes in valuation allowances, and the expiration of the statute of limitations in relation to unrecognized tax benefits. We record discrete income tax items such as enacted tax rate changes and completed tax audits in the period in which they occur.

Income taxes are discussed in Note 10 in the Notes to the Consolidated Financial Statements.

Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020

The following table presents certain information concerning our financial results, including information presented as a percentage of consolidated net sales:

	Nine Months Ended September 30,			
	2021		2020	
	$	%	$	%
Net sales	88,091	100.0%	76,441	100.0%
Cost of goods sold	63,273	71.8%	53,613	70.2%
Depreciation expense	2,099	2.4%	2,326	3.0%
Total cost of goods sold	65,372	74.2%	55,939	73.2%
Gross profit	22,719	25.8%	20,502	26.8%
Selling expenses	8,510	9.7%	7,411	9.7%
General & administrative expenses	8,702	9.9%	8,681	11.4%
Amortization expense	33	0.0%	117	0.1%
Total operating expenses	**17,245**	**19.6%**	**16,209**	**21.2%**
Income from operations	**5,474**	**6.2%**	**4,293**	**5.6%**
Other income (expense):				
Interest expense	(72)	(0.1%)	(96)	(0.1%)
Gain on investments	2	0.0%	4	0.0%
Loss on sales or property and equipment	(88)	(0.1%)	(28)	0.0%
Other Income, net	(61)	0.0%	2	0.0%
Total other income (expense)	(219)	(0.2%)	(118)	(0.1%)
Income before provision for income taxes	**5,255**	**6.0%**	**4,175**	**5.5%**
Provision for income taxes	1,851	2.1%	1,223	1.6%
Net income	**3,404**	**3.9%**	**2,952**	**3.9%**

Net Sales

Net sales finished at $88,091 for the nine-month period ended September 30, 2021, an increase of $11,649 or 15.2% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir. Approximately 29% of the net sales increase results from the Farmers to Families Food Box program with the United States Department of Agriculture ("USDA") which began during the middle of the first quarter of 2021 and ended during May 2021. Approximately 7% of the net sales increase results from our acquisition of Glen Oaks Farms during the third quarter of 2021.

Gross Profit

Gross profit as a percentage of net sales decreased to 25.8% during the nine-month period ended September 30, 2021 from 26.8% during the same period in 2020. The decrease versus the prior year was primarily due to the unfavorable impact of milk pricing, and to a lesser extent the increased pricing of freight and other inputs, partially offset by the decrease in depreciation expense.

Selling Expenses

Selling expenses increased by $1,099 to $8,510 during the nine-month period ended September 30, 2021 from $7,411,during the same period in 2020. The increase versus prior year primarily reflects an increase in advertising expense related to a television and digital advertising campaigns in the first quarter of 2021 and increased in person selling and marketing events, partially offset by lower compensation expense.

General and Administrative Expenses

General and administrative expenses increased $21 to $8,702 during the nine-month period ended September 30, 2021 from $8,681 during the same period in 2020. The increase is primarily a result of incentive compensation expense, partially offset by lower office lease and professional fee expense.

Provision for Income Taxes

The provision for income taxes includes federal, state and local income taxes. The provision for income taxes was $1,851 and $1,223 during the nine months ended September 30, 2021 and 2020, respectively.

Our effective income tax rate for the nine months ended September 30, 2021 was 35.2% compared to 29.5% in the same period last year. During the first quarter of 2020, the company's effective tax rate was reduced due to the provisions of the Cares Act. The law provided for the carry back of certain net operating losses to years in which the tax rates were significantly higher. The tax benefit was recorded as a discrete item in the first quarter of 2020. The statutory Federal and state taxes rates remained consistent from 2020 to 2021. The Company has a number of items that are nondeductible or are discrete adjustments to tax expense. Although similar items were reflected in 2021, the percentage increased due to nondeductible compensation expense under Section 162(m).

Our effective tax rate may change from period to period based on recurring and non-recurring factors including the relative mix of pre-tax earnings (or losses), the underlying income tax rates applicable to various state and local taxing jurisdictions, enacted tax legislation, the impact of non-deductible items, changes in valuation allowances, and the expiration of the statute of limitations in relation to unrecognized tax benefits. We record discrete income tax items such as enacted tax rate changes and completed tax audits in the period in which they occur.

Income taxes are discussed in Note 10 in the Notes to the Consolidated Financial Statements.

Liquidity and Capital Resources

The ultimate impact that the COVID-19 pandemic or any future pandemic or disease outbreak will have on our business and our consolidated results of operations is uncertain.

To date we have seen increased customer and consumer demand for our products as consumers initially began pantry loading and have increased their at-home consumption as a result of social distancing and stay-at-home and work-from-home mandates and recommendations. However, this increased customer and consumer demand may decrease in the future if and when the need for social distancing and stay-at-home and work-from-home mandates and recommendations decrease, and we are unable to predict the nature and timing of when that impact may occur, if at all.

Although to date we have not experienced supply chain constraints, and we have continued to be able to fully satisfy customer and consumer demand for our products, increasing supply chain constraints generally, and the continued unprecedented demand for food and other consumer packaged goods products as a result of the COVID-19 pandemic or any future pandemic may limit the availability of, or increase the cost of, ingredients, packaging and other raw materials necessary to produce our products, and our operations may be negatively impacted. Additionally, pandemics or disease outbreaks could result in a widespread health crisis that could adversely affect economies and financial markets, consumer spending and confidence levels resulting in an economic downturn that could affect customer and consumer demand for our products.

Our efforts to manage and mitigate these factors may be unsuccessful, and the effectiveness of these efforts depends on factors beyond our control, including the duration and severity of any pandemic or disease outbreak, as well as third party actions taken to contain its spread and mitigate public health effects.

The ultimate impact of the COVID-19 pandemic on our business will depend on many factors, including, among others, the duration of social distancing and stay-at-home and work-from-home mandates and recommendations and whether additional waves of COVID-19 or different variants of COVID-19 will affect the United States and other markets, our ability and the ability of our suppliers to continue to operate our and their manufacturing facilities and maintain the supply chain without material disruption and procure ingredients, packaging and other raw materials when needed despite unprecedented demand in the food industry, and the extent to which macroeconomic conditions resulting from the pandemic and the pace of the subsequent recovery may impact consumer eating and shopping habits. We cannot predict the duration or scope of the disruption. Therefore, the financial impact cannot be reasonably estimated at this time.

To date, our manufacturing facilities have not been significantly impacted. We have full production capacity available at all locations at this time. On March 16, 2020, the food industry, including grocery stores and their suppliers, and transportation were classified by the U.S. federal government as critical infrastructure industry. As a result, our employees and facilities, as well as the retailers and distributors that sell our products, will be able to remain in operation. During the first quarter of 2020, Management, anticipating the spread of Covid-19 and its effects, implemented a plan to mitigate effects of Covid-19 on supply and transportation of materials used to make and package our products, staffing, and transportation of our products to customers. While the situation is fluid, we have evaluated all manufacturing locations and do not anticipate any staffing shortages or interruption of our production, transportation and sale of products in the near term.

Cash Flow

At this time, the COVID-19 pandemic has not materially impacted our operations. We expect to meet our foreseeable liquidity and capital resource requirements through anticipated cash flows from operations; our revolving credit facility; and cash and cash equivalents to ensure the continuation of the Company as a going concern. The success of our business and financing strategies will continue to provide us with the financial flexibility to take advantage of various opportunities as they arise. Given the dynamic nature of COVID-19, we will continue to assess our liquidity needs while continuing to manage our discretionary spending and investment strategies.

Sources and Uses of Cash

Lifeway had a net increase in cash and cash equivalents of $2,092 and $3,780 during the nine-month period ended September 30, 2021 and 2020, respectively. The drivers of the year over year change are as follows:

Net cash provided in operating activities was $6,435 during the nine-month period ended September 30, 2021 compared to net cash provided by operating activities of $5,348 in the same period in 2020. The increase in cash provided by operating activities is primarily due to the increase in cash generated through higher revenues in 2021, and the change in working capital. Working capital consumption was higher in 2020 due to increased revenue in March 2020 as consumers anticipated the shelter in place directives that ultimately occurred as a result of the COVID-19 pandemic.

Net cash used in investing activities was $7,485 during the nine-month period ended September 30, 2021 compared to net cash used in investing activities of $1,163 in the same period in 2020. The increase in net cash used in investing activities in 2021 reflects the August 2021 acquisition of Glen Oak Farms, Inc. The $5,800 acquisition purchase price was funded through proceeds from our new $5,000 term loan and existing cash. Capital spending was $1,685 during the nine-month period ended September 30, 2021 compared to $1,168 in 2020. Our capital spending is focused in three core areas: growth, cost reduction, and facility improvements. Growth capital spending supports new product innovation and enhancements. Cost reduction and facility improvements support manufacturing efficiency, safety and productivity.

Net cash provided by financing activities was $3,142 during the nine-month period ended September 30, 2021 compared to net cash used in financing activities of $405 in the same period in 2020. The increase in net cash provided by financing activities relates to the term loan entered into during August 2021 in connection with the acquisition of Glen Oaks Farms, Inc. See Debt Obligations section below for further detail.

On June 24, 2021, the Lifeway's Board authorized a plan to repurchase up to 250 shares of Common Stock in the open market within 24 months at no more than $10 per share. We repurchased all 250 shares of common stock at a cost of $1,583 during the three-month period ended September 30, 2021. We intend to hold repurchased shares in treasury for general corporate purposes, including issuances under our 2015 Omnibus Incentive Plan. Treasury shares are accounted for using the cost method.

Debt Obligations

On August 18, 2021, Lifeway entered into the Fourth Modification (the "Fourth Modification") to the Amended and Restated Loan and Security Agreement (as amended and modified from time to time, the "Credit Agreement") with its existing lender and certain of its subsidiaries. The Fourth Modification amends the Credit Agreement to provide for, among other things, a $5 million term loan by the existing lender to the borrowers to be repaid in quarterly installments of principal and interest over a term of five years (the "Term Loan"). The termination date of the Term Loan is August 18, 2026, unless earlier terminated. Except for the addition of the Term Loan, the Credit Agreement remains substantively unchanged and in full force and effect.

As of September 30, 2021, we had $2,777 outstanding under the Revolving Credit Facility and $4,726 outstanding under the note payable, net of $24 of unamortized deferred financing fees. We had $2,223 available for future borrowings under the Revolving Credit Facility as of September 30, 2021. As amended, all outstanding amounts under the Loans bear interest, at Lifeway's election, at either the lender Base Rate (the Prime Rate minus 1.00%) or the LIBOR plus 1.95%, payable monthly in arrears. Lifeway is also required to pay a quarterly unused line fee of 0.20% on the Revolving Credit Facility and, in conjunction with the issuance of any letters of credit, a letter of credit fee of 0.20%. Lifeway's interest rate on debt outstanding under the Loans as of September 30, 2021 was 2.15%.

We are in compliance with all applicable financial debt covenants as of September 30, 2021. See Note 7 to our Consolidated Financial Statements for additional information regarding our indebtedness and related agreements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2021. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2021.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time we are engaged in litigation matters arising in the ordinary course of business. While the results of litigation and claims cannot be predicted with certainty, Lifeway believes that no such matter is reasonably likely to have a material adverse effect on our financial position or results of operations.

ITEM 1A. RISK FACTORS.

There have been no material changes with respect to the risk factors disclosed in Part I, Item 1A of our 2020 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced program (a)	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs ($ in thousands) (a)
7/1/2021 to 7/31/2021	250,000	$ 6.33	250,000	$ –
8/1/2021 to 8/31/2021	–	–	–	–
9/1/2021 to 9/30/2021	–	–	–	–
Fiscal Year 2020	**250,000**	**$ 6.33**	**250,000**	**$ 0**

(a) On June 24, 2021, the Lifeway's Board authorized a plan to repurchase up to 250 shares of Common Stock in the open market within 24 months at no more than $10 per share. As of September 30, 2021, the Company had reached the amended threshold of 250 shares and therefore no shares of common stock remain available to be purchased under the 2021 Repurchase Plan Amendment.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURE.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

No.	Description	Form	Period Ending	Exhibit	Filing Date
10.1	Fourth Modification to Amended and Restated Loan and Security Agreement dated as of August 18, 2021 among Lifeway Foods, Inc., Fresh Made, Inc., The Lifeway Kefir Shop, LLC, Lifeway Wisconsin, Inc., and CIBC Bank USA, as Lender	8-K	August 18, 2021	10.1	August 20, 2021
31.1	Rule 13a-14(a)/15d-14(a) Certification of Julie Smolyansky	Filed Herewith			
31.2	Rule 13a-14(a)/15d-14(a) Certification of Eric Hanson	Filed Herewith			
32.1	Section 1350 Certification of Julie Smolyansky*	Furnished Herewith			
32.2	Section 1350 Certification of Eric Hanson*	Furnished Herewith			
99.1	Press release dated November 15, 2021 reporting Lifeway's financial results for the nine months ended September 30, 2021.*	Furnished Herewith			

101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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 in IXBRL, and included in exhibit 101).

* The exhibits deemed furnished with this Form 10-Q and are not deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act., whether made before or after the date of the filing of this Form 10-Q and 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, thereunto duly authorized.

LIFEWAY FOODS, INC.

Date: November 15, 2021

By: /s/ Julie Smolyansky
Julie Smolyansky
Chief Executive Officer, President, and Director
(Principal Executive Officer)

Date: November 15, 2021

By: /s/ Eric Hanson
Eric Hanson
Chief Financial & Accounting Officer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1

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

I, Julie Smolyansky, certify that:

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

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

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

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

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

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

   (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 15, 2021

By: /s/ Julie Smolyansky
Julie Smolyansky
Chief Executive Officer, President and Director
(Principal Executive Officer)

EXHIBIT 31.2

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

I, Eric Hanson, certify that:

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

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

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

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

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

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

   (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 15, 2021

By: /s/ Eric Hanson
Eric Hanson
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Lifeway Foods, Inc. (the "Company") for the period ended September 30, 2021 as filed with the SEC (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to her knowledge:

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

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

Date: November 15, 2021

By: /s/ Julie Smolyansky
Julie Smolyansky
Chief Executive Officer, President and Director
(Principal Executive Officer)

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Lifeway Foods, Inc. (the "Company") for the period ended September 30, 2021 as filed with the SEC (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

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

Date: November 15, 2021

By: /s/ Eric Hanson
Eric Hanson
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 99.1

Lifeway Foods, Inc. Announces Results for the Third Quarter Ended September 30, 2021

Delivers net sales of $29.6 million, an impressive 13.5% increase and the eighth consecutive quarter of year-over-year net sales growth

Remains confident around ability to manage supply chain, issuing triple the lead time to vendors

Successfully completed the acquisition of certain assets of GlenOaks Farms

Morton Grove, IL — November 15, 2021— Lifeway Foods, Inc. (Nasdaq: LWAY) ("Lifeway" or "the Company"), the leading U.S. supplier of kefir and fermented probiotic products to support the microbiome, today reported financial results for the third quarter ended September 30, 2021.

"I am thrilled to report yet another consecutive quarter of year-over-year growth for Lifeway Foods, as the third quarter was highlighted by a strong 13.5% increase in net sales when compared to the same period in 2020, and a 15.2% increase for the first nine months of 2021," commented Julie Smolyansky, Lifeway's President and Chief Executive Officer. "This quarter we furthered our dedicated customer acquisition strategies with increased investments in our marketing and advertising programs, which continue to contribute to increased customer engagement and enhanced brand performance. Our elevated marketing alongside our improving execution of the Lifeway 2.0 strategy and the growing consumer trend towards gut health should help sustain Lifeway's growth as we move forward. We continue to feel excited and validated by the ongoing research around probiotics and their influence on gut health, mental health and immunity, all of which are especially important with the impact of Covid-19. We are looking forward to finishing off strong in 2021, and entering 2022 with momentum through the continued efficient execution of our growth strategies."

Smolyansky added, "Separate from our current brand performance, I would also like to highlight some recent business events that we are very excited about. On August 18, we completed the acquisition of certain assets of GlenOaks Farms, our first expansion outside of kefir and into drinkable yogurt. GlenOaks has strong distribution in Western U.S. retailers, which is strategically significant as we are looking to further our presence in the region, and also a great complement to our portfolio as Freshmade has a strong eastern presence, alongside the national presence of Lifeway. Initial results have been encouraging, and we are looking forward to further integrating GlenOaks into our strategy and expanding its reach. Lastly, we announced the introduction of Lifeway Oat, our probiotic cultured oat drinkables, a great-tasting dairy-free, plant-based beverage in a variety of flavors which connects several of the fastest growing industry trends today. We are bullish on the potential of this product and have already secured national distribution at four major retail partners with shipments beginning to our first customer in the fourth quarter of 2021."

Smolyansky continued, "We also have strong distribution trends for our core kefir line, which is seeing new distribution on multiple SKUs at top retailers in the coming months and into 2022. A major strength for Lifeway right now is our supply chain control. We do not foresee any shortages, and we have already prepared extra inventory for the anticipated holiday surge. We are issuing three times the lead time when ordering raw materials and have taken the necessary steps to meet demand, similar to our advanced action plan protocols that helped us successfully navigate the Covid-19 pandemic health regulations and product stockpiles."

Third Quarter 2021 Results

Net sales were $29.6 million for the third quarter, an increase of $3.5 million or 13.5% from the same period in 2020. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir, and to a lesser extent the favorable impacts from the completed acquisition of GlenOaks Farms in the third quarter.
Gross profit as a percentage of net sales was 23.7% for the third quarter ended September 30, 2021.

Selling expenses increased $0.6 million to $2.7 million for the third quarter from $2.1 million in the third quarter of 2020. The increase was due to increased investment in advertising and marketing programs.

General and administrative expenses increased $0.4 million to $3.2 million for the third quarter of 2021 from $2.8 million during the same period in 2020. The increase is primarily a result of incentive compensation expense.

Income tax expense was $0.5 million for the third quarter of 2021, compared to $0.8 million during the same period in 2020.

The Company reported net income of $0.5 million or $0.03 per basic and diluted common share for the third quarter ended September 30, 2021.

Conference Call and Webcast
A pre-recorded conference call and webcast with Julie Smolyansky discussing these results with additional comments and details will be available today at approximately 9:00 a.m. ET. The webcast will be available over the Internet through the “Investor Relations” section of the Company’s website at https://lifewaykefir.com/webinars-reports/. An audio replay will be available through November 29, 2021. North American listeners may dial 844-512-2921 and international listeners may dial 412-317-6671. The passcode is 11147523.

About Lifeway Foods, Inc.
Lifeway Foods, Inc., which has been recognized as one of Forbes' Best Small Companies, is America's leading supplier of the probiotic, fermented beverage known as kefir. In addition to its line of drinkable kefir, the company also produces cheese and a ProBugs line for kids. Lifeway's tart and tangy fermented dairy products are now sold across the United States, Mexico, Ireland, France and the United Kingdom. Learn how Lifeway is good for more than just you at lifewayfoods.com.

Forward-Looking Statements
This release (and oral statements made regarding the subjects of this release) contains “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995 regarding, among other things, future operating and financial performance, product development, market position, business strategy and objectives. These statements use words, and variations of words, such as “continue,” “build,” “future,” “increase,” “drive,” “believe,” “look,” “ahead,” “confident,” “deliver,” “outlook,” “expect,” and “predict.” Other examples of forward looking statements may include, but are not limited to, (i) statements of Company plans and objectives, including the introduction of new products, or estimates or predictions of actions by customers or suppliers, (ii) statements of future economic performance, and (III) statements of assumptions underlying other statements and statements about Lifeway or its business. You are cautioned not to rely on these forward-looking statements. These statements are based on current expectations of future events and thus are inherently subject to uncertainty. If underlying assumptions prove inaccurate or known or unknown risks or uncertainties materialize, actual results could vary materially from Lifeway’s expectations and projections. These risks, uncertainties, and other factors include: price competition; the decisions of customers or consumers; the actions of competitors; changes in the pricing of commodities; the effects of government regulation; possible delays in the introduction of new products; and customer acceptance of products and services. A further list and description of these risks, uncertainties, and other factors can be found in Lifeway’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020, and the Company’s subsequent filings with the SEC. Copies of these filings are available online at https://www.sec.gov, http://lifewaykefir.com/investor-relations/, or on request from Lifeway. Information in this release is as of the dates and time periods indicated herein, and Lifeway does not undertake to update any of the information contained in these materials, except as required by law. Accordingly, YOU SHOULD NOT RELY ON THE ACCURACY OF ANY OF THE STATEMENTS OR OTHER INFORMATION CONTAINED IN ANY ARCHIVED PRESS RELEASE.
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LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2021 and December 31, 2020
(In thousands)

	September 30, 2021 Unaudited	December 31, 2020
Current assets		
Cash and cash equivalents	$ 10,018	$ 7,926
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of $1,290 and $1,350 at September 30, 2021 and December 31, 2020 respectively	9,828	8,002
Inventories, net	7,572	6,930
Prepaid expenses and other current assets	1,315	1,163
Refundable income taxes	415	31
Total current assets	**29,148**	**24,052**
Property, plant and equipment, net	**20,546**	**21,048**
Operating lease right-of-use asset	**255**	**345**
Intangible assets		
Goodwill and indefinite-lived intangibles	14,224	12,824
Other intangible assets, net	4,367	–
Total intangible assets	**18,591**	**12,824**
Other assets	1,800	1,800
Total assets	**$ 70,340**	**$ 60,069**
Current liabilities		
Current portion of note payable	$ 1,000	$ –
Accounts payable	7,867	5,592
Accrued expenses	3,872	2,196
Accrued income taxes	100	653
Total current liabilities	**12,839**	**8,441**
Line of credit	**2,777**	**2,768**
Note payable	**3,726**	–
Operating lease liabilities	**113**	**165**
Deferred income taxes, net	**1,764**	**1,764**
Other long-term liabilities	**62**	**77**
Total liabilities	**21,281**	**13,215**
Commitments and contingencies	–	–
Stockholders' equity		
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at September 30, 2021 and December 31, 2020	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 15,435 and 15,604 outstanding at September 30, 2021 and December 31, 2020, respectively	6,509	6,509
Paid-in capital	2,387	2,600
Treasury stock, at cost	(13,436)	(12,450)
Retained earnings	53,599	50,195
Total stockholders' equity	**49,059**	**46,854**
Total liabilities and stockholders' equity	**$ 70,340**	**$ 60,069**

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the three and nine months ended September 30, 2021 and 2020
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Net sales	**$ 29,553**	**$ 26,039**	**$ 88,091**	**$ 76,441**
Cost of goods sold	21,915	17,710	63,273	53,613
Depreciation expense	645	752	2,099	2,326
Total cost of goods sold	22,560	18,462	65,372	55,939
Gross profit	**6,993**	**7,577**	**22,719**	**20,502**
Selling expenses	2,722	2,116	8,510	7,411
General and administrative	3,194	2,805	8,702	8,681
Amortization expense	33	39	33	117
Total operating expenses	**5,949**	**4,960**	**17,245**	**16,209**
Income from operations	**1,044**	**2,617**	**5,474**	**4,293**
Other income (expense):				
Interest expense	(30)	(27)	(72)	(96)
Gain on investments	–	–	2	4
Loss on sale of property and equipment	(5)	–	(88)	(28)
Other (expense) income, net	(2)	–	(61)	2
Total other income (expense)	(37)	(27)	(219)	(118)
Income before provision for income taxes	**1,007**	**2,590**	**5,255**	**4,175**
Provision for income taxes	527	764	1,851	1,223
Net income	**$ 480**	**$ 1,826**	**$ 3,404**	**$ 2,952**
Earnings (loss) per common share:				
Basic	$ 0.03	$ 0.12	$ 0.22	$ 0.19
Diluted	$ 0.03	$ 0.12	$ 0.22	$ 0.19
Weighted average common shares:				
Basic	15,473	15,602	15,572	15,595
Diluted	15,651	15,642	15,712	15,621

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Cash flows from operating activities:		
Net income	**$ 3,404**	**$ 2,952**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	2,132	2,443
Non-cash interest expense	9	17
Non-cash rent expense	1	(38)
Bad debt expense	6	(3)
Deferred revenue	(23)	(73)
Stock-based compensation	608	274
Deferred income taxes	–	369
Loss (gain) on sale of property and equipment	88	28
(Increase) decrease in operating assets:		
Accounts receivable	(1,832)	(1,464)
Inventories	(642)	(80)
Refundable income taxes	(384)	492
Prepaid expenses and other current assets	(152)	248
Increase (decrease) in operating liabilities:		
Accounts payable	2,275	756
Accrued expenses	1,498	(595)
Accrued income taxes	(553)	22
Net cash provided by operating activities	**6,435**	**5,348**
Cash flows from investing activities:		
Purchases of property and equipment	(1,685)	(1,168)
Proceeds from sale of property and equipment	–	5
Acquisition, net of cash acquired	(5,800)	–
Net cash used in investing activities	**(7,485)**	**(1,163)**
Cash flows from financing activities:		
Purchase of treasury stock	(1,583)	(405)
Payment of deferred financing cost	(25)	–
Proceeds from note payable	5,000	–
Repayment of note payable	(250)	–
Net cash provided by (used in) financing activities	**3,142**	**(405)**
Net increase in cash and cash equivalents	**2,092**	**3,780**
Cash and cash equivalents at the beginning of the period	7,926	3,836
Cash and cash equivalents at the end of the period	**$ 10,018**	**$ 7,616**
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	$ 2,788	$ 335
Cash paid for interest	$ 60	$ 82
Non-cash investing activities		
Increase (decrease) in right-of-use assets and operating lease obligations	$ 45	$ (58)
Non-cash financing activities		
Issuance of common stock under equity incentive plans	$ –	$ 522