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, 2016

☐ 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)

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 and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted 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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☒

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

As of November 1, 2016, 16,140,633 shares of the registrant's common stock, no par value, were outstanding.

LIFEWAY FOODS, INC.

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ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2016 and December 31, 2015
(In thousands)

	September 30, 2016 (Unaudited)	December 31, 2015
Current assets		
Cash and cash equivalents	$ 9,164	$ 5,646
Investments, at fair value	—	2,216
Certificates of deposits in financial institutions	—	513
Inventories	9,186	7,664
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of $1,800 at September 30, 2016 and December 31, 2015	10,426	9,604
Prepaid expenses and other current assets	550	201
Deferred income taxes	509	556
Refundable income taxes	521	449
Total current assets	**30,356**	**26,849**
Property and equipment, net	**21,603**	**21,375**
Intangible assets		
Goodwill & indefinite-lived intangibles	14,068	14,068
Other intangible assets, net	1,815	2,344
Total intangible assets	**15,883**	**16,412**
Other Assets	368	282
Total assets	**$ 68,210**	**$ 64,918**
Current liabilities		
Current maturities of notes payable	$ 840	$ 840
Accounts payable	8,762	8,393
Accrued expenses	2,002	1,538
Accrued income taxes	267	52
Total current liabilities	**11,871**	**10,823**
Notes payable	**6,489**	**7,119**
Deferred income taxes	**2,162**	**1,719**
Total liabilities	**20,522**	**19,661**
Stockholders' equity		
Common stock, no par value; 40,000 shares authorized; 17,274, shares issued; 16,141 and 16,210 shares outstanding at September 30, 2016 and December 31, 2015 respectively	6,509	6,509
Paid-in-capital	2,133	2,033
Treasury stock, at cost	(10,468)	(9,730)
Retained earnings	49,514	46,516
Accumulated other comprehensive income (loss), net of taxes	—	(71)
Total stockholders' equity	**47,688**	**45,257**
Total liabilities and stockholders' equity	**$ 68,210**	**$ 64,918**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the Three Months and Nine Months ended September 30, 2016 and 2015
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30, 2016	Three Months Ended September 30, (Revised) 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, (Revised) 2015
Net sales	$ **29,990**	$ **29,599**	$ **93,691**	$ **89,042**
Cost of goods sold	21,478	20,049	65,480	63,916
Depreciation expense	533	614	1,797	1,809
Total cost of goods sold	22,011	20,663	67,277	65,725
Gross profit	**7,979**	**8,936**	**26,414**	**23,317**
Selling expenses	4,306	2,706	10,733	8,626
General and administrative	3,308	3,998	10,300	10,643
Amortization expense	176	179	529	537
Total operating expenses	**7,790**	**6,883**	**21,562**	**19,806**
Income from operations	**189**	**2,053**	**4,852**	**3,511**
Other income (expense):				
Interest expense	(56)	(55)	(161)	(179)
Gain / (Loss) on sale of investments, net reclassified from OCI	12	1	(15)	(21)
Impairment of investments	—	(205)	—	(385)
(Loss) / Gain on sale of property and equipment	(156)	—	(307)	243
Other income (expense), net	28	26	105	173
Total other income (expense)	**(172)**	**(233)**	**(378)**	**(169)**
Income before provision for income taxes	**17**	**1,820**	**4,474**	**3,342**
Provision for income taxes	81	927	1,476	1,697
Net income (loss)	$ (64)	$ **893**	$ **2,998**	$ **1,645**
Basic earnings (loss) per common share	$ **(0.00)**	$ **0.05**	$ **0.19**	$ **0.10**
Diluted earnings (loss) per common share	$ **(0.00)**	$ **0.05**	$ **0.19**	$ **0.10**
Weighted average number of shares outstanding – Basic	**16,141**	**16,346**	**16,159**	**16,346**
Weighted average number of shares outstanding – Diluted	**16,161**	**16,346**	**16,181**	**16,346**
COMPREHENSIVE INCOME (LOSS)				
Net income (loss)	$ **(64)**	$ **893**	$ **2,998**	$ **1,645**
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investments, net of taxes	6	(183)	62	(247)
Reclassifications to earnings:				
Other than temporary impairment of investments, net of taxes				
Realized (gains) losses on investments, net of taxes	(8)	124	9	247
Comprehensive income (loss)	$ **(66)**	$ **834**	$ **3,069**	$ **1,645**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Nine Months Ended September 30, 2016 and 2015
(Unaudited)
(In thousands)

	Common Stock							
	Issued		In treasury		Paid In	Retained	Accumulated Other Comprehensive Income (Loss),	Total Stockholders'
	Shares	$	Shares	$	Capital	Earnings	Net of Tax	Equity
Balances at January 1, 2015	**17,274**	**$ 6,509**	**(928)**	**$ (8,188)**	**$ 2,033**	**$ 44,544**	**$ (198)**	**$ 44,700**
Other comprehensive income	—	—	—	—	—	—	—	
Net income for the nine months ended September 30, 2015	—	—	—	—	—	1,645	—	1,645
Balances at September 30, 2015	**17,274**	**$ 6,509**	**(928)**	**$ (8,188)**	**$ 2,033**	**$ 46,189**	**$ (198)**	**$ 46,345**
Balances at January 1, 2016	**17,274**	**$ 6,509**	**(1,064)**	**$ (9,730)**	**$ 2,033**	**$ 46,516**	**$ (71)**	**$ 45,257**
Other comprehensive income	—	—	—	—	—	—	71	71
Treasury stock purchased	—	—	(69)	(738)	—	—	—	(738)
Stock based compensation	—	—	—	—	100	—	—	100
Net income for the nine months ended September 30, 2016	—	—	—	—	—	2,998	—	2,998
Balances at September 30, 2016	**17,274**	**$ 6,509**	**(1,133)**	**$ (10,468)**	**$ 2,133**	**$ 49,514**	**$ —**	**$ 47,688**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2016 and 2015
(Unaudited)
(In thousands)

Cash flows from operating activities:	2016	2015
Net income	**$ 2,998**	**$ 1,645**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	2,326	2,346
Loss on sale of investments, net	15	21
Impairment of investments	—	385
Deferred income taxes	444	(472)
Reserve for inventory obsolescence	89	—
Stock based compensation	100	—
Loss (Gain) on sale of property and equipment	307	(243)
(Increase) decrease in operating assets:		
Accounts receivable	(823)	(540)
Inventories	(1,611)	(1,118)
Refundable income taxes	(72)	1,011
Prepaid expenses and other current assets	(310)	252
Increase (decrease) in operating liabilities:		
Accounts payable	370	(396)
Accrued expenses	465	1,038
Accrued income taxes	215	449
Net cash provided by operating activities	**4,513**	**4,378**
Cash flows from investing activities:		
Purchases of investments	(559)	(1,369)
Proceeds from sale of investments	2,751	1,230
Redemption of certificates of deposits	513	250
Investments in certificates of deposit	—	(635)
Purchases of property and equipment	(2,481)	(1,619)
Proceeds from sale of property and equipment	149	343
Net cash provided by (used in) investing activities	**373**	**(1,800)**
Cash flows from financing activities:		
Purchase of treasury stock	(738)	—
Repayment of notes payable	(630)	(827)
Net cash used in financing activities	**(1,368)**	**(827)**
Net increase in cash and cash equivalents	**3,518**	**1,751**
Cash and cash equivalents at the beginning of the period	5,646	3,260
Cash and cash equivalents at the end of the period	**$ 9,164**	**$ 5,011**
Supplemental cash flow information:		
Cash paid for income taxes, net of refunds	**$ 886**	**$ 795**
Cash paid for interest	**$ 162**	**$ 178**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2016 and December 31, 2015
(Unaudited)
(In thousands, except per share data)

Note 1 – Basis of Presentation

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("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, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included. For further information, refer to the consolidated financial statements and disclosures included in the consolidated financial statements included in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2015. Certain amounts in prior-year financial statements were reclassified to conform to the current-year presentation. The results for the period are not necessarily indicative of the results to be expected for other interim periods or the full year.

New presentation format. In prior periods, the Company presented gross sales, discounts and promotional allowances and net sales as distinct financial statement captions in our statements of income (loss) and comprehensive income (loss). During the second quarter of 2016, the Company concluded that it was appropriate to simply present net sales. All prior periods have been conformed to the new presentation.

Corrections of errors and revisions of prior period financial statements

During the third quarter of fiscal 2016, the Company recorded adjustments to properly classify indirect manufacturing overhead costs related to certain production facilities within our manufacturing platform as an element of Cost of Goods Sold in our Statements of Income (Loss) and Comprehensive Income (Loss). In prior periods these costs were incorrectly classified in General and Administrative expenses.

Additionally, in the first and second quarter of 2015, certain executive compensation was classified in Selling expenses that more appropriately should be classified as General and Administrative expenses. We previously corrected these classification errors in our first and second quarter 2016 filings on Form 10-Q with the SEC.

Collectively, these adjustments had the following impact on our Consolidated Statements of Income (Loss) and Comprehensive Income (Loss):

	(Unaudited) Three Months Ended March 31, 2016			(Unaudited) Six Months Ended June 30, 2016		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
Net Sales	$ 32,570	$ —	$ 32,570	$ 63,701	$ —	$ 63,701
Cost of Goods Sold	23,351	519	23,870	44,290	976	45,266
Gross Profit	9,219	(519)	8,700	19,411	(976)	18,435
Selling expenses	2,964	—	2,964	6,427	—	6,427
General & administrative	4,465	(519)	3,946	7,968	(976)	6,992
Amortization	176	—	176	353	—	353
Operating expenses	7,605	(519)	7,086	14,748	(976)	13,772
Income from Operations	$ 1,614	$ —	$ 1,614	$ 4,663	$ —	$ 4,663

	(Unaudited) Three Months Ended March 31, 2015			(Unaudited) Six Months Ended June 30, 2015		
	As Previously Reported (a)	Adjustment	As Revised	As Previously Reported (a)	Adjustment	As Revised
Net Sales	$ 29,622	$ —	$ 29,622	$ 59,443	$ —	$ 59,443
Cost of Goods Sold	21,239	458	21,697	44,044	1,017	45,061
Gross Profit	8,383	(458)	7,925	15,399	(1,017)	14,382
Selling expenses	3,302	—	3,302	5,920	—	5,920
General & administrative	3,492	(458)	3,034	7,662	(1,017)	6,645
Amortization	179	—	179	358	—	358
Operating expenses	6,973	(458)	6,515	13,940	(1,017)	12,923
Income from Operations	$ 1,410	$ —	$ 1,410	$ 1,459	$ —	$ 1,459

(a) As previously reported in our first and second quarter 2016 Form 10Q filings.

	(Unaudited) Nine Months Ended September 30, 2015			Twelve Months Ended December 31, 2015		
	As Previously Reported	Adjustment (b)	As Revised	As Previously Reported	Adjustment (b)	As Revised
Net Sales	$ 89,042	$ —	$ 89,042	$ 118,587	$ —	$ 118,587
Cost of Goods Sold	64,588	1,137	65,725	86,986	1,556	88,542
Gross Profit	24,454	(1,137)	23,317	31,601	(1,556)	30,045
Selling expenses	9,486	(860)	8,626	12,752	(860)	11,892
General & administrative	10,920	(277)	10,643	13,730	(696)	13,034
Amortization	537	—	537	716	—	716
Operating expenses	20,943	(1,137)	19,806	27,198	(1,556)	25,642
Income from Operations	$ 3,511	$ —	$ 3,511	$ 4,403	$ —	$ 4,403

(b) Includes the reclassification of certain executive compensation from Selling to General and administrative expenses

Further, these adjustments had no impact on the measurement of Income before provision for incomes taxes, Net income (loss), Basic and diluted earnings (loss) per common share or any element of the Consolidated Balance Sheets or Statements of Cash Flows for any of the respective periods. The Company determined these adjustments to be immaterial, individually and in the aggregate, to our previously filed consolidated financial statements.

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 fair value of investment securities, the valuation of goodwill and intangible assets, and deferred income taxes.

Revenue Recognition

The Company records sales when the following four criteria have been met: (i) The product has been shipped and the Company has no significant remaining obligations; (ii) Persuasive evidence of an agreement exists; (iii) The price to the buyer is fixed or determinable; and (iv) Collection is probable. In addition, shipping costs invoiced to the customers are included in net sales and the related costs are included in cost of sales.

The Company routinely offers sales allowances and discounts to our customers and consumers. These programs include rebates, in-store display and demo allowances, allowances for non-salable product, coupons and other trade promotional activities. These allowances are considered reductions in the price of our products and thus are recorded as reductions to gross sales. Some of these incentives are recorded by estimating incentive costs based on our historical experience and expected levels of performance of the trade promotion. We maintain a reserve for the estimated allowances incurred but unpaid. Differences between estimated and actual allowances are normally insignificant and are recognized in income in the period such differences are determined. Product returns have historically not been material.

Bulk cream is a by-product of the Company's fluid milk manufacturing process. The Company does not use bulk cream in any of its end products, but rather disposes of it through sales to other companies. Bulk cream by-product sales are included in net sales.

Advertising and promotional costs

The Company expenses advertising costs as incurred. For the nine months ended September 30, 2016 and 2015 total advertising expenses were $5,418 and $4,145 respectively. For the three months ended September 30, 2016 and 2015 total advertising expenses were $2,665 and $1,324 respectively.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued new guidance to address the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows, such as debt prepayment or debt extinguishment costs, contingent consideration payments made after an acquisition, proceeds from the settlement of insurance claims, and other topics. The new guidance will be effective for fiscal years beginning on or after December 15, 2017 and interim periods within those years. Early adoption of the guidance is permitted. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

In March 2016, the FASB issued new guidance regarding certain aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance will be effective for fiscal years beginning on or after December 15, 2016 and interim periods within those years. Early adoption of the guidance is permitted. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

In February 2016, the FASB issued new guidance regarding leases. The guidance requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize on the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those years. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

In January, 2016, the FASB issued new guidance regarding the recognition and measurement of financial assets and liabilities. The new guidance modifies how entities measure equity investments and present changes in the fair value of certain financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted under the equity method at fair value and recognize any changes in fair value in net income unless certain conditions exist. The new guidance will be effective for fiscal years beginning on or after December 15, 2017 and interim periods within those years. Other than for recognition and measurement, early adoption of the guidance is permitted. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

In November 2015, the FASB issued new guidance regarding the balance sheet classification of deferred income taxes. This new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. Previous guidance required deferred tax assets and liabilities to be separated into current and noncurrent amounts on the balance sheet. The guidance is effective for fiscal years beginning on or after December 15, 2016, and interim periods within those years. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

In July 2015, the FASB issued new accounting guidance for measuring inventory. The core principal of the guidance is that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance does not apply to inventory that is being measured using the Last-In, First-Out (LIFO) or the retail inventory method. The guidance is effective for financial statements issued for annual and interim periods beginning after December 15, 2016 on a prospective basis. Early adoption is permitted. Management is currently evaluating the impact this will have on the consolidated financial statements.

In May 2014, the FASB issued new guidance regarding revenue recognition. Additional revenue recognition guidance clarifications have been issued subsequent to May 2014. Collectively the new revenue recognition guidance supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific requirements. The new guidance establishes a five-step revenue recognition process in which an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. The Company is required to adopt the new guidance not later than January 1, 2018. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements and the method of retrospective application, either full or modified.

Note 3 – Intangible Assets

Goodwill & indefinite-lived intangible assets consists of the following:

	September 30, 2016	December 31, 2015
Goodwill	$ 10,368	$ 10,368
Brand names	3,700	3,700
Goodwill & indefinite lived intangible assets	$ 14,068	$ 14,068

Other intangible assets, net consists of the following:

	September 30, 2016	December 31, 2015
Recipes	$ 44	$ 44
Customer lists and other customer related intangibles	4,529	4,529
Customer relationship	985	985
Trade names	2,248	2,248
Formula	438	438
	8,244	8,244
Accumulated amortization	(6,429)	(5,900)
Intangible assets, net	$ 1,815	$ 2,344

Note 4 – Investments

The cost and fair value of investments classified as available for sale are as follows:

September 30, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Common stocks & ETF's	$ —	$ —	$ —	$ —
Mutual Funds	—	—	—	—
Preferred Securities	—	—	—	—
Corporate Bonds	—	—	—	—
Total	$ —	$ —	$ —	$ —

December 31, 2015	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Common stocks & ETF's	$ 690	$ 17	$ (94)	$ 613
Mutual Funds	27	—	(1)	26
Preferred Securities	98	6	—	104
Corporate Bonds	1,518	43	(88)	1,473
Total	$ 2,333	$ 66	$ (183)	$ 2,216

Gross gains of $185 and $14 and gross losses of $200 and $35 were realized on these sales during the nine months ended September 30, 2016 and 2015, respectively. Gross gains of $120 and $1 and gross losses of $108 and $0 were realized on these sales during the three months ended September 30, 2016 and 2015 respectively.

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2016 and December 31, 2015:

September 30, 2016	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses	Total Fair Value	Total Unrealized Losses
Common stocks & ETF's	$ —	$ —	$ —	$ —	$ —	$ —
Mutual Funds	—	—	—	—	—	—
Preferred Securities	—	—	—	—	—	—
Corporate Bonds	—	—	—	—	—	—
	$ —	$ —	$ —	$ —	$ —	$ —

December 31, 2015	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses	Total Fair Value	Total Unrealized Losses
Common stocks & ETF's	$ 225	$ (72)	$ 152	$ (22)	$ 377	$ (94)
Mutual Funds	26	(1)	—	—	26	(1)
Preferred Securities	—	—	—	—	—	—
Corporate Bonds	370	(32)	479	(56)	849	(88)
	$ 621	$ (105)	$ 631	$ (78)	$ 1,252	$ (183)

The Company's investments in equity securities, mutual funds, preferred securities, and corporate bonds consisted of investments in common stock, preferred stock, structured notes and other debt securities of companies in various industries. The Company recorded other-than-temporary impairment losses related to certain structured notes of $0 and $385 during the nine months ended September 30, 2016 and 2015 respectively. The structured notes allow the issuer to settle at an amount less than par in certain circumstances. In reaching a conclusion to record these other-than-temporary impairment losses, the Company evaluated the near-term prospects of the issuers and determined it was probable the issuers would have the ability to settle the bonds for an amount less than par value at maturity.

Note 5 – Inventories

Inventories consist of the following:

	September 30, 2016	December 31, 2015
Finished goods	$ 3,357	$ 2,946
Production supplies	3,168	2,636
Raw materials	2,661	2,082
Total inventories	$ 9,186	$ 7,664

Note 6 – Property and Equipment

Property and equipment consist of the following:

	September 30, 2016	December 31, 2015
Land	$ 1,747	$ 1,807
Buildings and improvements	16,387	16,387
Machinery and equipment	22,533	22,907
Vehicles	848	1,298
Office equipment	709	709
Construction in process	1,765	311
	43,989	43,419
Accumulated depreciation	(22,386)	(22,044)
Total property and equipment	$ 21,603	$ 21,375

Note 7 – Accrued Expenses

Accrued expenses consist of the following:

	September 30, 2016	December 31, 2015
Accrued payroll and payroll taxes	$ 1,462	$ 859
Accrued property tax	297	377
Other	243	302
Total accrued expenses	$ 2,002	$ 1,538

Note 8 – Notes Payable

	September 30, 2016	December 31, 2015
Variable rate bank notes due May 31, 2018. Principal and interest payable monthly with a balloon payment due at maturity.	$ 3,465	$ 3,846
Variable rate bank notes due May 31, 2019. Principal and interest payable monthly with a balloon payment due at maturity.	3,864	4,113
Total notes payable	7,329	7,959
Less current maturities	840	840
Total long-term portion	$ 6,489	$ 7,119

The variable rate bank notes are subject to interest at the prime rate or at the LIBOR rate plus 2.5% and are collateralized by substantially all of the assets of the Company. In addition, under the terms of the related agreements, the Company is subject to minimum fixed charged ratio and tangible net worth thresholds, which among other things may limit the Company's ability to pay dividends or repurchase shares of its common stock. The Company was in compliance with these financial covenants at September 30, 2016. Further, under the agreements the Company is required to deliver its annual and quarterly financial statements and related SEC filings within specified timeframes. At the time of filing this Form 10-Q the Company was in compliance with these requirements.

In addition, the Company has a $5 million revolving credit facility. Borrowings under the facility are subject to interest at the prime rate or LIBOR plus 2.5%. As of September 30, 2016 and December 31, 2015 there were no borrowings under the facility. The facility expires in July 2017.

Note 9 – Commitments and contingencies

Lease obligations -The Company leases corporate office space and three stores for its Lifeway Kefir Shop subsidiary. Total rent expense for these leases was $171 and $93 for the nine months ended September 30, 2016 and 2015, respectively. The Company is also responsible for additional rent equal to real estate taxes and other operating expenses.

Litigation -The Company is engaged in various legal actions, claims and proceedings arising in the normal course of business, including commercial disputes, product liabilities, intellectual property matters and employment-related matters resulting from the Company's business activities.

The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. The Company evaluates, 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, the Company does not establish an accrued liability. Currently, none of the Company's accruals for outstanding legal matters are material individually or in the aggregate to the Company's 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 operation, or cash flows. However, if the Company ultimately is required to make payments in connection with an adverse outcome, it is possible that it could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

The Company'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, the Company cannot predict with any reasonable certainty the timing or outcome of such contingencies, and the Company is unable to estimate a possible loss or range of loss.

Note 10 – Income taxes

For each interim period, the Company estimates the effective tax rate (ETR) expected to be applicable for the full year and applies that rate to income before provision for income taxes for the period. Additionally, the Company records discrete income tax items such as enacted tax rate changes and completed tax audits in the period in which they occur.

The effective tax rate for the three months ended September 30, 2016 exceeded 100% compared to an ETR of 50.8% for the three months ended September 30, 2015. The ETR for the three-month period ended September 30, 2016 reflects a change in the estimated U.S. manufacturing deduction and the relatively small amount of income before provision for income taxes. The ETR for the three-month period ended September 30, 2015 reflects certain operating expenses that were not fully deductible for federal income tax purposes.

The effective tax rate for the nine months ended September 30, 2016 was 33.0% compared to an ETR of 50.9% for the nine months ended September 30, 2015. During the nine months ended September 30, 2016 we recorded an income tax benefit of $265 as a result of the favorable settlement of uncertain tax positions, which reduced the ETR by 5.9%. During the nine months ended September 30, 2015 we incurred certain operating expenses that were not fully deductible for federal income tax purposes, which increased the ETR by 8.1%.

Note 11 – Fair Value Measurements

FASB Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2. Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes in the methodologies used as of September 30, 2016 and December 31, 2015.

The majority of the Company's fair value measurements for investments are classified within Level 1 or Level 2 of the fair value hierarchy. The Company's Level 1 fair value measurements, which include mutual funds and common stock, is based on quoted market prices in active markets for identical securities. The Company's Level 2 fair value measurements, which include corporate bonds and preferred securities, is based on quoted prices in inactive markets for identical or similar assets. The company's level 3 fair value measurements which include other than temporarily impaired bonds are based on the present value of the estimated proceeds expected to be received at maturity of the bond. Those bonds were reclassified to level 3 from level 2 during 2015.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Company's financial assets measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	Assets at Fair Value as of September 30, 2016			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ —	$ —	$ —	$ —
Common Stocks & ETF's	—	—	—	—
Preferred Securities	—	—	—	—
Corporate Bonds	—	—	—	—

	Assets at Fair Value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 26	$ —	$ —	$ 26
Common Stocks & ETF's	613	—	—	613
Preferred Securities	—	104	—	104
Corporate Bonds	—	1,149	324	1,473

The Company's financial assets and liabilities which are not carried at fair value on a recurring basis include cash and cash equivalents, certificates of deposit, accounts receivable, other receivables, accounts payable, accrued expenses and notes payable for which carrying value approximates fair value.

Note 12 – Stock-based and Other Compensation

In December 2015, Lifeway shareholders 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. The Company has not established a pace for the frequency of awards under the Omnibus Incentive Plan, and 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.

Pursuant to the Omnibus Incentive Plan, Lifeway granted 26 stock options to certain key employees of the company effective January 1, 2016 and 24 stock options on July 1, 2016 (the "2016 options"). The 2016 options generally vest over a three-year period, on a relatively accelerated basis. The accelerated vesting reflects the landmark nature of the awards and the relative tenure of individual participants.

For the three and nine months ended September 30, 2016 total pre-tax stock-based compensation expense recognized in the consolidated statements of income (loss) and comprehensive income (loss) was $58 and $100, respectively. For the three and nine months ended September 30, 2016 tax-related benefits of $22 and $37 were also recognized.

The following table summarizes stock option activity during the nine months ended September 30, 2016:

	Options	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding at December 31,2015	—	$		
Granted	50	$ 10.37		
Exercised	—	$ —		
Terminated	—	$ —		
Outstanding at September 30, 2016	50	$ 10.37	9.50	$ 329
Exercisable at September 30, 2016	7	$ 9.57	9.75	$ 50

We measure the fair value of stock options using the Black-Scholes option pricing model. The expected term of options granted was based on the weighted average time of vesting and the end of the contractual term. We utilized this simplified method as we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term.

The following assumptions were used for the grants in 2016:

	Three Months Ended September 30, 2016
Risk free interest rate	1.00 - 1.11%
Expected dividend yield	0.27%
Expected volatility	38.96 - 39.94%
Expected term	5.03 - 5.88

We expense stock options on a straight-line basis over the service period. As of September 30, 2016, the total remaining unearned compensation related to non-vested stock options was $94, which will be amortized over the weighted-average remaining service period of 1.15 years.

In March 2016 Lifeway established an incentive-based compensation program for certain senior executives (the “participants”). The incentive compensation is based on the achievement of certain sales and EBITDA performance levels versus respective targets in 2016. Under the program, collectively the participants may earn cash and equity-based incentive compensation in amounts ranging from $0 to $4,000 during 2016 depending on the performance levels compared to the respective targets. The participants’ achievement of equity-based compensation during the balance of 2016 is not considered to be probable. At September 30, 2016 bonuses of $1,280 had been earned under the program, including $200 of equity-based awards.

The company has a defined contribution plan which is available to substantially all full-time employees. Under the terms of the plan the company matches employee contributions under a prescribed formula. For the nine months ended September 30, 2016 and 2015 total contribution expense recognized in the consolidated statements of income (loss) and comprehensive income (loss) was $255 and $200 respectively. For the three months ended September 30, 2016 and 2015 total contribution expense recognized in the consolidated statements of income (loss) and comprehensive income (loss) was $82 and $53 respectively.

Note 13 – Segments, Products and Customers

The Company manufactures probiotic, cultured, functional dairy health food products. The Company's primary product is kefir, a dairy beverage similar to but distinct from yogurt, in several flavors and in several package configurations. In addition to the drinkable products, Lifeway manufactures "Lifeway Farmer Cheese," a line of various farmer cheeses.

The Company has determined that it has one reportable segment based on how the Company's 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 company performance, has been identified collectively as the Chief Financial Officer, the Chief Operating Officer, the Chief Executive Officer and Chairman of the board of directors. Substantially all of the consolidated revenues of the Company relate to the sale of fermented dairy products which are produced using the same processes and materials and are sold to consumers through a network of distributors and retailers in the United States.

Net sales of products by category were as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2016	**2015**	**2016**	**2015**
Cream and Drinkable Kefir other than ProBugs	$ 80,135	$ 76,723	$ 25,533	$ 25,902
Pro Bugs	4,962	5,999	1,606	1,702
Lifeway Farmer Cheese	7,579	5,125	2,479	1,661
Frozen Kefir	1,015	1,195	372	334
Net Sales	$ 93,691	$ 89,042	$ 29,990	$ 29,599

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 22% of net sales for the nine months ended September 30, 2016 and 2015, respectively and 22% and 20% of net sales for the three months ended September 30, 2016 and 2015 respectively.

Note 14 – Related party transactions

The Company obtains consulting services from the Chairman of its board of directors. Fees earned by the Chairman are included in general and administrative expense in the accompanying consolidated statements of income (loss) and comprehensive income (loss) and were $787 and $727 during the nine months ended September 30, 2016 and 2015 respectively, and $248 and $340 during the three months ended September 30, 2016 and 2015 respectively.

Beginning in 2016 the Company is also a party to a royalty agreement with the Chairman of its board of directors under which the Company pays the Chairman a royalty based on the sale of certain Lifeway product, not to exceed $50 in any fiscal month. Royalties of $450 and $150 were earned by the Chairman during the nine months and three months ended September 30, 2016 respectively and were included in selling expenses in the accompanying consolidated statements of income (loss) and comprehensive income (loss).

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, 2015 (the "Form 10-K"). Unless otherwise specified, any description of "our", "we", and "us" in this MD&A refer to Lifeway Foods, Inc. and subsidiaries.

Cautionary Statement Regarding Forward-Looking Statements

In addition to historical information, this quarterly report contains "forward looking" statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements reflect our current expectations of the future and at the same time are subject to risks, uncertainties and assumptions that are difficult to predict.

In some cases, these statements may be identified by the use of words such as "may", "will", "could", "expect", "anticipate", "intend", "believe", "estimate", "plan", "predict", and similar terms or terminology, or the negative of such terms or other comparable terminology. Although we believe the expectations expressed in these forward-looking statements are based on reasonable assumptions within the bound of our knowledge of our business, our actual results could differ materially from those discussed in these statements. Factors that could contribute to such differences include, but are not limited to, those discussed in the "Risk Factors" section of the Form 10-K. We undertake no obligation to update publicly any forward-looking statements for any reason even if new information becomes available or other events occur in the future.

Comparison of the three-month period ended September 30, 2016 to the three-month period ended September 30, 2015

Results of Operations

	Three months ended September 30,		Change	
	2016	**(Revised) 2015**	**$**	**%**
Net sales	**$ 29,990**	**$ 29,599**	**$ 391**	**1.3%**
Cost of goods sold	$ 21,478	$ 20,049	$ 1,429	
Depreciation expense	533	614	(81)	
Total cost of goods sold	$ 22,011	$ 20,663	$ (1,348)	(6.5%)
Gross profit	$ **7,979**	**$ 8,936**	**$ (957)**	**(10.7%)**
Gross Profit % to net sales	*26.6%*	*30.2%*		
Selling expenses	$ 4,306	$ 2,706	$ (1,600)	(59.1%)
Selling expenses % to net sales	*14.4%*	*9.1%*		
General & administrative expenses	$ 3,308	$ 3,998	$ 690	17.3%
General & administrative % to net sales	*11.0 %*	*13.5%*		
Amortization expense	$ 176	$ 179	$ 3	1.7%
Total operating expenses	$ **7,790**	**$ 6,883**	**$ (907)**	**(13.2%)**
Total operating expense % to net sales	*26.0%*	*23.3%*		
Income from operations	$ **189**	**$ 2,053**	**$ (1,864)**	**(90.8%)**
Income from operations % to net sales	*0.6%*	*6.9%*		

Net Sales

Net sales increased by $391 or 1.3% to $29,990. The increase in net sales was driven by volume gains in organic and private label sales and the introduction of new items, partially offset by increased trade spending and relatively flat cream sales.

Gross Profit

Gross profit as a percent of net sales declined to 26.6% during the three-month period ended September 30, 2016 from 30.2% during the same three-month period in 2015. The lower gross profit percent reflects increased trade promotion and unfavorable mix.

Selling Expenses

Selling expenses increased by $1,600 or 59.1% to $4,306 during the three-month period ended September 30, 2016 from $2,706 during the same period in 2015, reflecting an increase in advertising costs and higher salaries and royalty expense. During the third quarter of 2016, we ran a six week, broad-based advertising campaign advancing the Lifeway brand. The campaign had an Olympics theme and featured our brand ambassador Carli Lloyd. Selling expenses as a percentage of sales were 14.4% for the three-month period ended September 30, 2016 compared to 9.1% for the same period in 2015.

General and administrative expenses

General and administrative expenses declined $690 or 17.3% to $3,308 during the three-month period ended September 30, 2016 from $3,998 during the same period in 2015. The decline is primarily a result of lower professional fees partially offset by higher compensation driven by increased incentive compensation and headcount. We experienced elevated levels of legal and professional fees in the prior year related to our delayed SEC filings, additional audit fees and costs associated with remediation of our internal control environment.

Income from operations and net income

The company reported income from operations of $189 during the three months ended September 30, 2016, compared to $2,053 during the same period in 2015. Provision for income taxes was $81 during three months ended September 30, 2016, compared to a provision for income taxes of $927 during the same period in 2015. Our effective tax rate for the three months ended September 30, 2016 exceeded 100% compared to an effective tax rate of 50.9% in the same period last year. The effective tax rate for the three-month period ended September 30, 2016 reflects a change in the estimated U.S. manufacturing deduction and the relatively small amount of income before provision for income taxes. Income taxes are discussed in Note 10 in the Notes to the Consolidated Financial Statements

We reported a net loss of $64 or $0.00 per basic and diluted common share for the three-month period ended September 30, 2016 compared to net income of $893 or $0.05 per basic and diluted common share in the same period in 2015.

Comparison of the nine-month period ended September 30, 2016 to the nine-month period ended September 30, 2015

Results of Operations

	Nine months ended September 30,		Change	
	2016	(Revised) 2015	$	%
Net sales	**$ 93,691**	**$ 89,042**	**$ 4,649**	**5.2%**
Cost of goods sold	$ 65,480	$ 63,916	$ 1,564	
Depreciation expense	1,797	1,809	(12)	
Total cost of goods sold	$ 67,277	$ 65,725	$ (1,552)	(2.4%)
Gross profit	$ **26,414**	**$ 23,317**	**$ 3,097**	**13.3%**
Gross Profit % to net sales	*28.2%*	*26.2%*		
Selling expenses	$ 10,733	$ 8,626	$ (2,107)	(24.4%)
Selling expenses % to net sales	*11.5%*	*9.7%*		
General & administrative expenses	$ 10,300	$ 10,643	$ 343	3.2%
General & administrative % to net sales	*11.0%*	*12.0%*		
Amortization expense	$ 529	$ 537	$ 8	1.5%
Total operating expenses	$ **21,562**	**$ 19,806**	**$ (1,756)**	**(8.9%)**
Total operating expense % to net sales	*23.0%*	*22.2%*		
Income from operations	$ **4,852**	**$ 3,511**	**$ 1,341**	**38.2%**
Income from operations % to net sales	*5.2%*	*3.9%*		

Net Sales

Net sales increased by $4,649 or 5.2% to $93,691. The increase in net sales was driven by volume gains of our private label and organic products, the introduction of new items and lower trade spending, partially offset by lower sales of our ProBugs product.

Gross Profit

Gross profit as a percent of net sales increased to 28.2% during the nine-month period ended September 30, 2016 from 26.2% during the same period in 2015. The improvement in the gross profit percent reflects lower input costs, primarily milk prices and lower trade promotion, partially offset by unfavorable mix.

Selling Expenses

Selling expenses increased by $2,107 or24.4% to $10,733 during the nine-month period ended September 30, 2016 from $8,626 during the same period in 2015 reflecting increased advertising expenses and additional royalty expenses. During the nine month period ending September 30, 2016 we ran two advertising campaigns compared to only one campaign in the year ago period. The 2016 advertising campaigns consisted of a product-focused Pro Bugs campaign and a Lifeway brand-focused campaign. The 2015 advertising campaign was our first commercial campaign and ran during the week of the 2015 Golden Globe awards. Selling expenses as a percentage of sales were 11.5% for the nine-month period ended September 30, 2016 compared to 9.7% for the same period in 2015.

General and administrative expenses

General and administrative expenses declined $343 or 3.2% to $10,300 during the nine-month period ended September 30, 2016 from $10,643 during the same period in 2015. The decrease reflects lower professional fees partially offset by higher compensation driven by increased headcount and incentive compensation. Professional fees, which consist primarily of legal and accounting fees declined due primarily to the elevated levels of fees in the prior year related to our delayed SEC filings, additional audit fees and costs associated with remediation of our internal control environment. Additionally, we have made a concerted effort to contain professional fees in 2016.

Income from operations and net income

The company reported income from operations of $4,852 during the nine months ended September 30, 2016, compared to $3,511 during the same period in 2015. Provision for income taxes was $1,476, or a 33.0% effective rate during nine months ended September 30, 2016, compared to a provision for income taxes of $1,697 or a 50.8% effective tax rate, during the same period in 2015. During the nine months ended September 30, 2016 we recognized an income tax benefit of $265 as a result of the favorable settlement of uncertain tax positions, which reduced the effective tax rate by 5.9%. During the nine months ended September 30, 2015 we incurred certain operating expenses that were not fully deductible for federal income tax purposes, which increased the effective tax rate by 8.1%. Income taxes are discussed in Note 10 in the Notes to the Consolidated Financial Statements.

Net income was $2,998 or $0.19 per basic and diluted common share for the nine-month period ended September 30, 2016 compared to $1,645 or $0.10 per basic and diluted common share in the same period in 2015.

Liquidity and Capital Resources

Sources and Uses of Cash

We anticipate foreseeable liquidity and capital resource requirements to be met through operating cash flows; long term and short term borrowings, and cash and cash equivalents. We continue to explore potential acquisition opportunities in our industry in order to boost sales while leveraging our manufacturing and distribution capabilities.

Net cash provided by operating activities was $4,513 during the nine months ended September 30, 2016 compared to net cash provided by operating activities of $4,378 in the same period in 2015. The increase in cash provided by operating activities reflects higher profitability partially offset by increased inventory levels attributable to the expansion of our Waukesha production levels; increased receivable balances reflecting the year over year sales growth and the unfavorable timing of payments to suppliers and service providers in 2016.

Net cash provided by investing activities was $373 during the nine -months ended September 30, 2016 compared to net cash used in investing activities of $1,800 in the same period in 2015. The lower level of net cash used in investing activities reflects liquidity provided from our investments. During the third quarter of 2016, we liquidated our investment portfolio to generate cash for general corporate purposes. Capital spending was $2,481 during the nine -months ended September 30, 2016 compared to $1,619 in the same period in 2015 reflecting our continuing investments in new productive equipment.

Net cash used in financing activities was $1,368 during the nine-months ended September 30, 2016 compared to net cash used in financing activities of $827 in the same period in 2015. We repurchased 69 shares of common stock at a cost of $738 in the nine months ended September 30, 2016. There were no share repurchases in the same period in 2015. On September 24, 2015, the Company's Board of Directors authorized a stock repurchase program under which the Company may repurchase up to $3,500 of common stock not to exceed an aggregate of 250 shares. Approximately $1,200 remained available under this authorized program as of September 30, 2016. The repurchase program has no expiration date and may be suspended or discontinued at any time.

The Company had a net increase in cash and cash equivalents of $3,518 during the nine-month period ended September 30, 2016 compared to a net increase in cash and cash equivalents of $1,751 in the same period in 2015.

At September 30, 2016, the Company had $840 of current maturities of notes payable. The Company also has a $5 million revolving credit facility with The Private Bank. This facility remained unused at September 30, 2016, is available for general corporate purposes and expires in July 2017.

The company is in compliance with the covenants contained in its loan agreements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

For information regarding our exposure to certain market risk, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Form 10-K. There have been no significant changes in our market risk exposures from the 2015 year-end.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

Our evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act was performed under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer. The purpose of disclosure controls and procedures is to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

As previously disclosed under "Item 9A—Controls and Procedures" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and under "Item 4 – Controls and Procedures" in our Quarterly Report on Form 10-Q/A for the three months ended March 31, 2016, we concluded that our internal control over financial reporting was not effective based on the material weaknesses identified. Based on those material weaknesses, which we view as an integral part of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the quarter ended September 30, 2016, our disclosure controls and procedures were not effective. Nevertheless, based on a number of factors, including the performance of additional procedures by management designed to ensure the reliability of our financial reporting, we believe that the consolidated financial statements in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

(b) Changes in Internal Control over Financial Reporting

Our remediation efforts were ongoing during the three months ended September 30, 2016. Remediation generally requires making changes to how controls are designed and implemented and then adhering to those changes for a sufficient period of time such that the effectiveness of those changes is demonstrated with an appropriate amount of consistency. We have taken certain remediation steps to address the material weaknesses referenced above and to improve our control over financial reporting. If not remediated these deficiencies could result in material misstatements to our consolidated financial statements.

In addition to the actions previously disclosed under "Item 9A—Controls and Procedures" in our Form 10-K, our remediation initiatives summarized below, are intended to further address our specific material weaknesses and to continue to enhance our internal control over financial reporting.

Management's Remediation Initiatives

- Our leadership team remains committed to achieving and maintaining a strong control environment, high ethical standards and financial reporting integrity. This commitment continues to be communicated to and reinforced with our employees.

- We continue to foster awareness and understanding of standards and principles for accounting and financial reporting. This includes the implementation and clarification of specific accounting policies and procedures.

- We continue to enhance the development, communication, and monitoring of processes and controls to ensure that appropriate account reconciliations and journal entry controls are performed, documented, and reviewed as part of our standardized procedures.

- We continue to improve the planning, coordination, communication and discipline in our period-end closing and financial statement preparation process in order to increase both its effectiveness and efficiency.

- The audit committee of our board of directors has maintained an elevated frequency and depth of its discussions with management regarding financial reporting and internal control matters.

- During the three months ended March 31, 2016 we took the following actions to improve our internal controls over financial reporting:

    - We in-sourced our fixed asset system and related transaction processing from a third party service provider, enabling the transacting of fixed asset additions and depreciation journal entries earlier in our quarterly close process.

    - We consolidated our income tax accounting services and income tax return preparation under a single third party service provider. Consolidating these activities into a single service provider enhances our ability to close the books on timely and accurate basis.

- During the three months ended June 30, 2016 we took the following actions to improve our internal controls over financial reporting:

    - We have increased the size and capabilities of our finance and accounting functions by establishing a new role that oversees financial planning and analysis. Our former corporate controller has begun transitioning into this new role. Also, in July 2016 we hired a new corporate controller with significant public accounting and financial reporting experience who has begun transitioning into his role.
    - We have implemented a management disclosure committee of representatives from our finance, accounting, and legal departments to enhance the review and operation of our disclosure controls and procedures. From time to time, we will supplement the committee with members from other areas of our management team and business, including our outsourced internal audit and investor relations functions.
    - We have centralized our payroll processing activities from three locations down to one. The centralization improves management's oversight and better segregates time and attendance activities from payroll processing activities.
    - We have updated and expanded our whistleblower policy and retained a new third-party service provider to manage the administrative aspects of our whistleblower hotline.
    - We have formalized our contract approval process. The formalized process establishes explicit levels of authority for contract approval and requires specific levels of review. The improved process

includes a documented policy and enabling technology that will enhance governance over significant contracts.

- During the three months ended September 30, 2016 we took the following actions to improve our internal controls over financial reporting:
    - We continued to transition our controllership responsibilities to our recently hired corporate controller.
    - We implemented additional procedures in our inventory accounting process, including expanded analytical reviews over our priced-out physical inventory, expanded completeness testing of the priced out physical inventory, expanded reviews of the accuracy of our bill of materials (BOM's) and expanded analytical reviews of gross margin.
    - Our management disclosure committee continued to meet formally and informally in tandem with our third quarter reporting process.
    - During the third quarter, we also put additional formality into our disclosure controls by establishing a cascaded certification process. While our existing policies create a foundation for organizational transparency, our cascaded certification process goes a step further by requiring key managers to inform the certifying officers in a structured way of any accounting or reporting matters in their areas of responsibility that could be relevant to such filings.

There were no other material changes in our internal control over financial reporting that occurred during the three months ended September 30, 2016 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are a party to various lawsuits, proceedings, and other matters arising out of the conduct of our business. Currently, it is management's opinion that the ultimate resolution of these matters will not have a material adverse effect on our business, financial condition, results of operation, or cash flows.

ITEM 1A. RISK FACTORS.

There have been no material changes to the Risk Factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and our Quarterly Report on Form 10-Q/A for the fiscal quarter ended March 31, 2016.

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

Issuer Purchases of Equity Securities

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)
7/1/2016 to 7/31/2016	—	$ —	—	$ 1,214
8/1/2016 to 8/30/2016	—	$ —	—	$ 1,214
9/1/2016 to 9/30/2016	—	$ —	—	$ 1,214
Total	—	**$** —	—	**$ 1,214**

(a) During the fourth quarter of 2015, the company had a publicly announced share repurchase program. Under this program, which was announced on September 24, 2015, the company's Board of Directors authorized the purchase of up to $3.5 million of company stock. The program has no expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURE.

Not applicable.

ITEM 5. OTHER INFORMATION.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

(i) On November 7, 2016, the Board of Directors of Lifeway Foods, Inc. (the "Company") appointed Douglas A. Hass to serve as General Counsel and Assistant Corporate Secretary, effective November 7, 2016.

Douglas A. Hass, 40, has more than twenty years of legal, management, and operations experience, centered on technology-intensive businesses. He joined the Company as Legal Counsel in March 2016 having most recently served as an attorney at international law firm DLA Piper LLP (US) where he advised and represented a wide range of public and privately-held manufacturers and technology companies on labor and employment law, technology/new media issues, intellectual property and restrictive covenants, and associated corporate law and litigation issues. Prior to joining DLA Piper, Mr. Hass practiced law in Chicago, where he represented federal and state government and private-sector clients in a variety of labor and employment, corporate, and litigation matters. From 1998 until 2006, Mr. Hass was Chief Operations Officer at ImageStream, a multinational telecommunications and Internet networking equipment manufacturer. Prior to 1998, Mr. Hass was Vice President and Partner at Skye/net, a major Midwest-based Internet service provider. Mr. Hass also founded country music website Roughstock.com.

Mr. Hass has been named one of Illinois' "40 under 40 Attorneys to Watch" by Chicago Lawyer Magazine, selected from thousands of attorney and law professor nominees from across the state. He was also named a Rising Star by SuperLawyers for Illinois in labor and employment, has published more than a dozen articles in law journals and other publications, and has been a frequent invited speaker on a range of topics at legal and telecommunications industry conferences. He holds a Juris Doctor from Indiana University Maurer School of Law in Bloomington, Indiana.

Employment Agreements

On March 5, 2016, the Company entered into an employment agreement with Mr. Hass. Beginning in 2016, Mr. Hass began earning an annual base salary of $315,000. Mr. Hass's base salary is subject to annual review by the Board. The employment agreement also allows for an annual incentive payment of ten percent (10%) of his base salary based on the satisfaction of certain pre-established performance goals established by the Board. Mr. Hass is also eligible for certain equity and other long-term incentive awards, in the sole discretion of the Board. The Company may terminate Mr. Hass's employment for any lawful reason.

The foregoing descriptions of Mr. Hass's employment agreement are qualified in their entirety by reference to the full text of Mr. Hass's employment agreement, which is attached hereto as Exhibit 10.1, and incorporated herein by reference.

Family Relationships

There is no family relationship between Mr. Hass and any director or executive officer of the Company.

Related Party Transactions

Mr. Hass has no direct or indirect material interest in any transaction required to be disclosed pursuant to Item 404(a) of Regulation S-K.

ITEM 6. EXHIBITS.

10.1	Employment Agreement dated March 5, 2016 with Douglas A. Hass
31.1	Officer's Certificate Pursuant to 15 U.S.C. 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Officer's Certificate Pursuant to 15 U.S.C. 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Press release dated November 9, 2016 reporting the Company's financial results for the nine months ended September 30, 2016.
101	Interactive Data Files.

* This exhibit is furnished and will not be deemed "filed."

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 9, 2016

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

Date: November 9, 2016

By: /s/ John P. Waldron
John P. Waldron
Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX OF EXHIBITS

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99.1*	Press release dated November 9, 2016 reporting the Company's financial results for the nine months ended September 30, 2016.
101	Interactive Data Files.

* This exhibit is furnished and will not be deemed "filed."

EXHIBIT 10.1

LIFEWAY FOODS, INC.

March 5, 2016

Douglas A. Hass
Via Email

Re: Terms of Employment

Dear Doug:

I am delighted to confirm that Lifeway Foods, Inc. (the "Company") has offered you a position on the terms described below:

Start Date: March 21, 2016.

Title and Reporting: During the term of your employment with the Company, you will serve as Legal Counsel and will report directly to the Chief Executive Officer, Chief Financial Officer and/or Chief Operating Officer.

Duties and Responsibilities: You will have the duties and responsibilities that are normally associated with the position described above and such additional responsibilities as may be prescribed by the Company from time to time. You will devote all of your business time, energy, business judgment, knowledge and skill and your best efforts to the performance of your duties with the Company. The foregoing will not prevent you from (i) with prior written notice to the Chief Executive Officer, serving on the boards of directors of non-profit organizations; (ii) participating in charitable, civic, educational, or community affairs; (iii) managing your passive personal investments; and (iv) undertaking pro bono or other uncompensated legal projects consistent with applicable rules of professional conduct for attorneys; provided, with respect to each of (i)-(iv) above, such activities, individually or in the aggregate, do not interfere or conflict with your duties hereunder or create an actual or potential business or fiduciary conflict.

Base Salary: During the period of your employment with the Company, the Company will pay you a base salary at the annual rate of $315,000 in accordance with the usual payroll practices of the Company and subject to withholdings and deductions, but at no time less frequently than equal monthly payments.

Annual Bonus: In addition to your base salary payable to you hereunder, you may also be eligible to receive additional bonus or incentive compensation during the period of your employment with the Company based upon a target bonus opportunity of ten percent (10%) of your base salary, as shall be determined in the sole discretion of the Board of Directors of the Company (or a committee thereof), consistent with the bonus or incentive plans, if any, to be established from time to time for employees of the Company.

Benefits and Vacation: You will be eligible to participate in all health benefits, insurance programs, and other employee welfare benefits plans maintained by the Company for its employees generally, in accordance with the terms thereof (and subject to any applicable waiting periods or other eligibility requirements), as amended from time to time. You also will be entitled to paid vacation time in accordance with the Company's policy on accrual and use applicable to employees as in effect from time to time. In addition, upon presentation of appropriate documentation, you will be reimbursed by the Company for reasonable business expenses in accordance with Company policies, in connection with the performance of your duties hereunder. If there is any conflict between this letter and the Company's plan documents, the plan documents will prevail. In addition, the Company reserves the right in its sole discretion to amend or terminate its compensation plans, programs, or benefits at any time.

License to Practice Law: You have represented to the Company that you are licensed to practice law in the States of Illinois and Indiana only, and you agree to apply for and maintain such licenses as are required to practice law as an in-house counsel in the states in which the Company operates (within such time frames required by the applicable laws, regulations and rules of those states) as necessary for the performance of your duties. The Company will obtain professional malpractice insurance applicable to your employment as in-house legal counsel.

Representations: You represent and warrant to the Company that (a) you have the legal right to accept this offer and to perform all of the obligations on your part to be performed hereunder, and (b) you are not a party to any agreement or understanding, written or oral, and are not subject to any restriction, which, in either case, could prevent you from accepting this offer or performing all of your duties and obligations described hereunder.

At-Will Employment: Your employment with the Company will be "at-will." You may resign at any time, and the Company may terminate your employment at any time for any (or no) reason and with or without notice.

Restrictive Covenants: As a condition to your employment, you will execute the Company's Restrictive Covenants Agreement, a copy of which is attached hereto as Exhibit A.

Tax Matters: The Company may withhold from any and all amounts payable under this offer letter or otherwise such federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation. The intent of the parties is that payments and benefits under this letter comply with Code Section 409A and the regulations and guidance promulgated thereunder (collectively "Code Section 409A") and, accordingly, to the maximum extent permitted, this letter shall be interpreted to be in compliance therewith. In no event whatsoever shall the Company or its affiliates be liable for any additional tax, interest or penalty that may be imposed on you by Code Section 409A or damages for failing to comply with Code Section 409A. Notwithstanding anything to the contrary in this offer letter, if you are deemed on the date of termination to be a "specified employee" within the meaning of that term under Code Section 409A(a)(2)(B), then with regard to any payment or the provision of any benefit that is considered deferred compensation under Code Section 409A payable on account of a "separation from service," such payment or benefit shall not be made or provided until the date which is the earlier of (A) the expiration of the six (6)-month period measured from the date of such "separation from service," and (B) the date of your death, to the extent required under Code Section 409A. Upon the expiration of the foregoing delay period, all payments and benefits delayed (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to you in a lump sum, and any remaining payments and benefits due shall be paid or provided in accordance with the normal payment dates specified for them. To the extent that reimbursements or other in-kind benefits under this letter constitute "nonqualified deferred compensation" for purposes of Code Section 409A, (A) all such expenses or other reimbursements hereunder shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by you, (B) any right to such reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (C) no such reimbursement, expenses eligible for reimbursement, or in-kind benefits provided in any taxable year shall in any way affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year. For purposes of Code Section 409A, your right to receive any installment payments hereunder shall be treated as a right to receive a series of separate and distinct payments.

Dodd-Frank: Your rights with respect to any incentive compensation, including, without limitation, the annual bonus, will in all events be subject to (i) any right that the Company may have under any Company recoupment policy or other agreement or arrangement applicable to you, or (ii) any right or obligation that the Company may have regarding the clawback of "incentive-based compensation" under Section 10D of the Securities Exchange Act of 1934, as amended, and any applicable rules and regulations promulgated thereunder from time to time by the U.S. Securities and Exchange Commission (or any applicable listing exchange). In addition, notwithstanding anything herein to the contrary, any bonus or incentive or equity-based compensation, or other compensation, payable to you hereunder or otherwise will be subject to repayment or recoupment (clawback) by the Company to the extent applicable under Section 304 of the Sarbanes-Oxley Act of 2002.

Governing Law: This letter agreement will be governed by, and construed under and in accordance with, the internal laws of the State of Illinois, without reference to rules relating to conflicts of laws.

Entire Agreement: This letter and the exhibit attached hereto constitute the entire understanding between you and the Company with respect to the subject matter hereof and supersede any and all prior agreements or understandings between you and the Company with respect to the subject matter hereof, whether written or oral. This letter agreement may be amended or modified only by a written instrument executed by you and the Company.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

This letter and your employment with the Company is contingent on a background check and your compliance with the Immigration and Naturalization Service regulations requiring the establishment of your identity and right to work in the United States. If this letter agreement accurately reflects your understanding as to the terms and conditions of your employment with the Company, please sign and date one copy of this letter agreement in the space provided below and return the same to me for the Company's records.

Doug, I would like to take this opportunity to welcome you to the Company. I very much look forward to working with you.

Very truly yours,

LIFEWAY FOODS, INC.

By: /s/ Edward Smolyansky

Name: Edward Smolyansky

Title: Chief Operating Officer

The above terms and conditions accurately reflect our understanding regarding the terms and conditions of my employment with the Company, and I hereby confirm my agreement to the same.

Dated: March 5, 2016

/s/ Douglas A. Hass
Employee's Signature

EXHIBIT A

RESTRICTIVE COVENANTS AGREEMENT

LIFEWAY FOODS, INC.

RESTRICTIVE COVENANTS AGREEMENT

THIS RESTRICTIVE COVENANTS AGREEMENT (this "Agreement") is made by and between Lifeway Foods, Inc. (together with its direct and indirect subsidiaries, the "Company") and the undersigned individual ("Employee").

WHEREAS, in partial consideration for Employee's employment with the Company and Employee's incentive compensation opportunities, the Company wishes to enter into this Agreement and bind Employee to certain restrictive covenants in favor of the Company and the Company's Affiliates as set forth herein.

NOW, THEREFORE, in consideration of the foregoing, of the mutual promises contained herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. **CONFIDENTIALITY.** During the course of Employee's employment with the Company, Employee will have access to Confidential Information. For purposes of this Agreement, "Confidential Information" means all data, information, ideas, concepts, discoveries, trade secrets, inventions (whether or not patentable or reduced to practice), innovations, improvements, know-how, developments, techniques, methods, processes, treatments, drawings, sketches, specifications, designs, plans, patterns, models, plans and strategies, and all other confidential or proprietary information or trade secrets in any form or medium (whether merely remembered or embodied in a tangible or intangible form or medium) whether now or hereafter existing, relating to or arising from the past, current or potential business, activities and/or operations of the Company or any of its Affiliates (or any of their respective predecessors, successors or permitted assigns), including, without limitation, any such information relating to or concerning finances, sales, marketing, advertising, transition, promotions, pricing, personnel, customers, suppliers, vendors, partners and/or competitors. Employee agrees that Employee shall not, directly or indirectly, use, make available, sell, disclose or otherwise communicate to any person, other than in the course of Employee's assigned duties and for the benefit of the Company, either during the period of Employee's employment or at any time thereafter, any Confidential Information or other confidential or proprietary information received from third parties subject to a duty on the Company's and its Affiliates' part to maintain the confidentiality of such information, and to use such information only for certain limited purposes strictly for the benefit of the Company or any of its Affiliates. The terms and conditions of this Agreement shall remain strictly confidential, and Employee hereby agrees not to disclose the terms and conditions hereof to any person or entity, other than immediate family members, legal advisors or personal tax or financial advisors, or, solely for the purpose of disclosing the limitations on Employee's conduct imposed by the provisions of this Agreement prospective future employers who, in each case, agree to keep such information confidential. Notwithstanding the foregoing, Confidential Information shall not include any information that Employee can demonstrate (i) was lawfully in Employee's possession prior to commencing employment with the Company or any of its predecessors, successors or Affiliates and not obtained in connection with Employee's commencement of such employment, or (ii) constitutes industry knowledge or is generally available, or is made generally available, to the public other than as a result of a direct or indirect disclosure by Employee.

2. **NONCOMPETITION.** Employee acknowledges that (i) Employee performs services of a unique nature for the Company that are irreplaceable, and that Employee's performance of such services to a competing business will result in irreparable harm to the Company, (ii) Employee has had and will continue to have access to Confidential Information, which, if disclosed, would unfairly and inappropriately assist in competition against the Company or any of its Affiliates, (iii) in the course of Employee's employment by a competitor, Employee would inevitably use or disclose such Confidential Information,

(iv) the Company and its Affiliates have substantial relationships with their customers and Employee has had and will continue to have access to these customers, (v) Employee has received and will receive specialized training from the Company and its Affiliates, and Employee's duties to the Company will involve more than legal counseling, and (vi) Employee has generated and will continue to generate goodwill for the Company and its Affiliates in the course of Employee's employment. Accordingly, during Employee's employment and service with the Company and for the Restricted Period (defined below), to the maximum extent permitted by applicable law, Employee agrees that Employee will not, directly or indirectly, own, manage, operate, control, be employed by (whether as an employee, consultant, independent contractor or otherwise, and whether or not for compensation) or render services to any person, firm, corporation or other entity, in whatever form, engaged (I) in the business of manufacturing, selling or marketing kefir products, (II) in competition with the Company, or (III) in any material business in which the Company is engaged, or plans to be engaged, on the date of Employee's termination of employment, in the Restricted Territory. Notwithstanding the foregoing, nothing herein shall prohibit Employee from being a passive owner of not more than two percent (2%) of the equity securities of a publicly traded corporation engaged in a business that is in competition with the Company, so long as Employee has no active participation in the business of such corporation. For purposes of this Section 2, (a) the "Restricted Period" shall mean the twelve (12) month period immediately following the date of Employee's termination of employment and service, and (b) the "Restricted Territory" shall mean, collectively: (i) the geographic area(s) within a one hundred (100) mile radius of any and all Company location(s) in, to, or for which Employee worked, to which Employee was assigned or had any responsibility (either direct or supervisory) at the time of termination of Employee's employment and at any time during the twelve (12) month period prior to such termination; (ii) all of the specific customer accounts, whether within or outside of the geographic area described in (i) above, with which Employee had any contact or for which Employee had any responsibility (either direct or supervisory) at the time of termination of Employee's employment and at any time during the twelve (12) month period prior to such termination; and (iii) any state(s) of the United States that contain the geographic area(s) described in (i) or (ii) above.

3. **NONSOLICITATION; NONINTERFERENCE.**

(a) During Employee's employment and service with the Company and for a period of twelve (12) months thereafter, Employee agrees that Employee shall not, except in the furtherance of Employee's duties to the Company, directly or indirectly, individually or on behalf of any other person, firm, corporation or other entity, solicit, aid or induce any individual or entity that is, or was during the twelve-month period immediately prior to the termination of Employee's employment for any reason, a customer of the Company or any of its Affiliates to purchase goods or services then sold by the Company or any of its Affiliates from another person, firm, corporation or other entity or assist or aid any other persons or entity in identifying or soliciting any such customer.

(b) During Employee's employment and service with the Company and for a period of twelve (12) months thereafter, Employee agrees that Employee shall not, except in the furtherance of Employee's duties to the Company, directly or indirectly, individually or on behalf of any other person, firm, corporation or other entity, (A) solicit, aid or induce any advisor, consultant, employee, representative or agent of the Company or any of its Affiliates to leave such employment or retention or solicit, aid or induce any employee of the Company or any of its Affiliates to accept employment with or render services to or with any other person, firm, corporation or other entity unaffiliated with the Company or hire or retain any such employee, or take any action to materially assist or aid any other person, firm, corporation or other entity in identifying, hiring or soliciting any such employee, representative or agent, or (B) interfere, or aid or induce any other person or entity in interfering, with the relationship between the Company or any of its subsidiaries or Affiliates and any of their respective vendors, joint venturers or licensors. Any person described in this Section shall be deemed covered by this Section while so employed or retained and for a period of twelve (12) months thereafter.

4. **NONDISPARAGEMENT.** Employee agrees not to make negative comments or otherwise disparage the Company or any of its Affiliates or any of their respective partners, members, officers, directors, employees, shareholders, agents or products. The foregoing shall not be violated by truthful statements in response to legal process, required governmental testimony or filings, or administrative or arbitral proceedings (including, without limitation, depositions in connection with such proceedings).

5. **INVENTIONS.** (a) Employee acknowledges and agrees that all ideas, methods, inventions, discoveries, improvements, work products, developments or works of authorship ("Inventions"), whether patentable or unpatentable, (A) that relate to Employee's work with the Company, made or conceived by Employee, solely or jointly with others, during the period of Employee's employment or service with the Company, or (B) suggested by any work that Employee performs in connection with the Company, either while performing Employee's duties with the Company or on Employee's own time, shall belong exclusively to the Company (or its designee), whether or not patent applications are filed thereon. Employee hereby irrevocably conveys, transfers and assigns to the Company the Inventions and all patents that may issue thereon in any and all countries, whether during or subsequent to the period of Employee's employment or service with the Company, together with the right to file, in Employee's name or in the name of the Company (or its designee), applications for patents and equivalent rights (the "Applications"). Employee will, at any time during and subsequent to the period of Employee's employment or service with the Company, and at the Company's expense, make such applications, sign such papers, take all rightful oaths, and perform all acts as may be reasonably requested from time to time by the Company with respect to the Inventions. Employee will also execute assignments to the Company (or its designee) of the Applications, and give the Company and its attorneys all reasonable assistance (including the giving of testimony) to obtain the Inventions for the Company's benefit, all without additional compensation to Employee from the Company. If the Company is unable for any other reason to secure Employee's signature on any document for this purpose, then Employee hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Employee's agent and attorney in fact, to act for and in Employee's behalf and stead to execute any documents and to do all other lawfully permitted acts in connection with the foregoing.

(b) In addition, the Inventions will be deemed Work for Hire, as such term is defined under the copyright laws of the United States, on behalf of the Company and Employee agrees that the Company will be the sole owner of the Inventions, and all underlying rights therein, in all media now known or hereinafter devised, throughout the universe and in perpetuity without any further obligations to Employee. If the Inventions, or any portion thereof, are deemed not to be Work for Hire, Employee hereby irrevocably conveys, transfers and assigns to the Company, all rights, in all media now known or hereinafter devised, throughout the universe and in perpetuity, in and to the Inventions, including, without limitation, all of Employee's right, title and interest in the copyrights (and all renewals, revivals and extensions thereof) to the Inventions, including, without limitation, all rights of any kind or any nature now or hereafter recognized, including, without limitation, the unrestricted right to make modifications, adaptations and revisions to the Inventions, to exploit and allow others to exploit the Inventions and all rights to sue at law or in equity for any infringement, or other unauthorized use or conduct in derogation of the Inventions, known or unknown, prior to the date hereof, including, without limitation, the right to receive all proceeds and damages therefrom. In addition, Employee hereby waives any so-called "moral rights" with respect to the Inventions. To the extent that Employee has any rights in the results and proceeds of Employee's service to the Company that cannot be assigned in the manner described herein, Employee agrees to unconditionally waive the enforcement of such rights. Employee hereby waives any and all currently existing and future monetary rights in and to the Inventions and all patents that may issue thereon, including, without limitation, any rights that would otherwise accrue to Employee's benefit by virtue of Employee being an employee of or other service provider to the Company.

(c) Employee shall comply with all relevant agreements, policies and guidelines of the Company regarding the protection of confidential information and intellectual property and potential conflicts of interest. Employee acknowledges that the Company may amend any such policies and guidelines from time to time, and that Employee remains at all times bound by their most current version.

(d) The provisions of this Section 5 shall not apply to an Invention for which no equipment, supplies, facility, or trade secret information of the Company was used and which was developed entirely on Employee's own time, unless (A) the invention relates (i) to the business of the Company, or (ii) to the Company's actual or demonstrably anticipated research or development, or (B) the Invention results from any work performed by Employee for the Company.

6. **RETURN OF COMPANY PROPERTY.** On the date of Employee's termination of employment with the Company for any reason (or at any time prior thereto at the Company's request), Employee shall return all Confidential Information or other property belonging to the Company or any of its Affiliates (including, but not limited to, any Company-provided laptops, computers, cell phones, wireless electronic mail devices or other equipment, or documents and property belonging to the Company).

7. **COOPERATION.** Upon the receipt of reasonable notice from the Company (including outside counsel), Employee agrees that while employed by the Company and thereafter, Employee will respond and provide information with regard to matters in which Employee has knowledge as a result of Employee's employment with the Company, and will provide reasonable assistance to the Company, its Affiliates and their respective representatives in defense of any claims that may be made against the Company or its Affiliates, and will assist the Company and its Affiliates in the prosecution of any claims that may be made by the Company or its Affiliates, to the extent that such claims may relate to the period of Employee's employment with the Company (collectively, the "Claims"). Employee agrees to promptly inform the Company if Employee becomes aware of any lawsuits involving Claims that may be filed or threatened against the Company or its Affiliates. Employee also agrees to promptly inform the Company (to the extent that Employee is legally permitted to do so) if Employee is asked to assist in any investigation of the Company or its Affiliates (or their actions) or another party attempts to obtain information or documents from Employee (other than in connection with any litigation or other proceeding in which Employee is a party-in-opposition) with respect to matters Employee believes in good faith to relate to any investigation of the Company or its Affiliates, in each case, regardless of whether a lawsuit or other proceeding has then been filed against the Company or its Affiliates with respect to such investigation, and shall not do so unless legally required. During the pendency of any litigation or other proceeding involving Claims, Employee shall not communicate with anyone (other than Employee's attorneys and tax and/or financial advisors and except to the extent that Employee determines in good faith is necessary in connection with the performance of Employee's duties hereunder) with respect to the facts or subject matter of any pending or potential litigation or regulatory or administrative proceeding involving the Company or any of its Affiliates without giving prior written notice to the Company or the Company's counsel. Upon presentation of appropriate documentation, the Company shall pay or reimburse Employee for all reasonable out-of-pocket travel, duplicating or telephonic expenses incurred by Employee in complying with this section.

8. **REASONABLENESS OF COVENANTS.** In signing this Agreement, Employee has carefully read and considered all of the terms and conditions of this Agreement and the restraints imposed on Employee's conduct hereunder, Employee agrees that these restraints are necessary for the reasonable and proper protection of the Company and its Affiliates and their trade secrets and confidential information and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area, and that these restraints, individually or in the aggregate, will not prevent Employee from obtaining other suitable employment during the period in which Employee is bound by the restraints. Employee acknowledges that each of these covenants has a unique, very substantial and immeasurable value to the Company and its Affiliates and that Employee has sufficient assets and skills to provide a livelihood while such covenants remain in force. Employee further covenants that Employee will not challenge the reasonableness or enforceability of any of the covenants set forth in this Agreement, and that Employee will reimburse the Company and its Affiliates for all costs (including reasonable attorneys' fees)

incurred in connection with any action to enforce any of the provisions of this Agreement if either the Company and/or any of its Affiliates is the prevailing party in such dispute or if Employee challenges the reasonableness or enforceability of any of the provisions of this Agreement. It is also agreed that each of the Company's Affiliates will have the right to enforce all of Employee's obligations to that Affiliate under this Agreement and shall be third party beneficiaries hereunder. Employee acknowledges and agrees that the restrictive covenants set forth in this Agreement are independent covenants and shall be in addition to, and shall not supersede or be deemed to be in lieu of, any restrictive covenants set forth in any other agreement between Employee and the Company or its Affiliates, including, without limitation, any restrictive covenants set forth in any equity-based incentive plan or grant agreement.

9. **REFORMATION.** If it is determined by a court of competent jurisdiction in any state that any restriction in this Agreement is excessive in duration or scope or is unreasonable or unenforceable under applicable law, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the laws of that state. This Agreement does not, in any way, restrict or impede Employee from exercising Employee's rights under Section 7 of the National Labor Relations Act or exercising other protected rights to the extent that such rights cannot be waived by agreement.

10. **TOLLING.** In the event of any violation of the provisions of this Agreement, Employee acknowledges and agrees that the post-termination restrictions contained herein shall be extended by a period of time equal to the period of such violation, it being the intention of the parties hereto that the running of the applicable post-termination restriction period shall be tolled during any period of such violation.

11. **SURVIVAL OF PROVISIONS.** The obligations contained in this Agreement shall survive the termination of Employee's employment or service with the Company and shall be fully enforceable thereafter.

12. **AFFILIATES.** For purposes hereof, the Company's "Affiliates" shall mean any individual or entity that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with the Company. For purposes of this definition, "control" means the power to direct the management and policies of another, whether through the ownership of voting securities, by contract or otherwise.

13. **EQUITABLE RELIEF AND OTHER REMEDIES.** Employee acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of this Agreement would be inadequate and, in recognition of this fact, Employee agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company shall be entitled to obtain equitable relief in the form of specific performance, a temporary restraining order, a temporary or permanent injunction or any other equitable remedy which may then be available, without the necessity of showing actual monetary damages or the posting of a bond or other security.

14. **SEVERABILITY.** The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

15. **NO RIGHT TO CONTINUED SERVICE.** Nothing herein shall give Employee any right to continued employment or service with the Company or any of its Affiliates, or in any way limit the right of the Company to terminate Employee's employment or service at any time and for any reason (or no reason), with or without notice.

16. **SUCCESSORS AND ASSIGNS.** This Agreement shall be binding upon and shall inure to the benefit of the Company, its successors and assigns. Employee's obligations under this Agreement shall not be assignable by Employee.

17. **COUNTERPARTS.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

18. **GOVERNING LAW; JURISDICTION.** This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of Illinois without giving effect to the choice of law principles thereof. Each of the parties agrees that any dispute between the parties shall be resolved only in the courts of the State of Illinois or the United States District Court for the Northern District of Illinois and the appellate courts having jurisdiction of appeals in such courts. In that context, and without limiting the generality of the foregoing, each of the parties hereto irrevocably and unconditionally (a) submits in any proceeding relating to this Agreement or Employee's employment by, or service to, the Company or any Affiliate, or for the recognition and enforcement of any judgment in respect thereof (a "Proceeding"), to the exclusive jurisdiction of the courts of the State of Illinois, the court of the United States of America for the District of Illinois, and appellate courts having jurisdiction of appeals from any of the foregoing, and agrees that all claims in respect of any such Proceeding shall be heard and determined in such Illinois State court or, to the extent permitted by law, in such federal court, and (b) consents that any such Proceeding may and shall be brought in such courts and waives any objection that Employee or the Company may now or thereafter have to the venue or jurisdiction of any such Proceeding in any such court or that such Proceeding was brought in an inconvenient court and agrees not to plead or claim the same.

19. **ENTIRE AGREEMENT**. This Agreement may be amended or modified only by a written instrument executed by Employee and the Company.

* * * * *

IN WITNESS WHEREOF, Employee has executed this Agreement on this 7th day of March, 2016.

EMPLOYEE

/s/ Douglas A. Hass

Print Name: Douglas A. Hass

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 9, 2016

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, John P. Waldron, 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 9, 2016

By: /s/ John P. Waldron
John P. Waldron
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, 2016 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 operation of the Company.

Date: November 9, 2016

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, 2016 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 operation of the Company.

Date: November 9, 2016

By: /s/ John P. Waldron
John P. Waldron
Chief Financial Officer
(Principal Financial and Accounting Officer)

Lifeway®

Lifeway Foods, Inc. Announces Results for the Third Quarter Ended September 30, 2016

Morton Grove, IL — November 9, 2016 — Lifeway Foods, Inc., (Nasdaq: LWAY), the leading U.S. supplier of kefir cultured dairy products, today reported financial results for the third quarter ended September 30, 2016.

"Our third quarter results reflects our commitment to drive growth and better position Lifeway for future success," said Julie Smolyansky, CEO of Lifeway Foods, Inc. "I am pleased to report that Lifeway's total household penetration is up 28% compared to last year, a strong indication that the strategic marketing and trade investments we have made are attracting a broader consumer base. Today, Lifeway's brand is stronger than ever and we believe there are still tremendous white space opportunities for us to further expand distribution of our diverse portfolio of products across all retail sales channels. Looking forward, we will continue to prioritize our key initiatives to drive sales, improve profitability and create long-term value for our shareholders."

Third Quarter Results

Third quarter of 2016 net sales increased 1.3% to $30.0 million from $29.6 million in the third quarter of 2015 reflecting higher volumes of private label and organic products partially offset by an increased investment in trade programs.

Gross profit as a percent of net sales decreased to 26.6% from 30.2% in the same period last year. The decrease in gross margin reflects increased trade promotion and unfavorable mix.

Selling expenses increased by $1.6 million to $4.3 million during the third quarter of 2016 from $2.7 million in the third quarter of 2015. The increase in selling expenses reflects an increase in advertising costs associated with a six-week advertising campaign in the third quarter. As a percentage of net sales, selling expenses increased to 14.4% compared to 9.1% in the same period last year.

General and administrative expenses decreased by $0.7 million or 17.3% to $3.3 million reflecting lower professional fees partially offset by higher compensation levels.

The effective tax rate for third quarter of 2016 exceeded 100% compared to 50.9% in the third quarter of 2015. The higher tax rate in the third quarter of 2016 reflects the relatively low level of profits in the third quarter of 2016.

Net loss was approximately $64,000, or $0.00 per diluted share for the quarter ended September 30, 2016, compared to net income of $893,000, or $0.05 per diluted share for the quarter ended September 30, 2015.

First Nine Months of Fiscal 2016

Total consolidated net sales increased by $4.6 million, or approximately 5.2%, to $93.7 million during the nine-month period ended September 30, 2016 reflecting volume gains in private label and organic products and lower trade spending compared to last year.

Gross profit as a percent of net sales increased to 28.2% from 26.2% in the same period last year. The increase reflects lower input costs, primarily milk, and lower trade spending.

Selling expenses increased approximately 24.4% to $10.7 million during the first nine months of 2016 from $8.6 million in the first nine months of 2015, reflecting additional advertising campaigns in the 2016 period. As a percentage of net sales, selling expenses increased to 11.5% compared to 9.7% in the same period last year.

General and administrative expenses decreased by $0.3 million or 3.2% to $10.3 million reflecting lower professional fees partially offset by higher compensation.

The effective tax benefit for the first nine months of 2016 was 33.0% compared to 50.8% in the same period last year, primarily reflecting the implementation of tax planning strategies in 2016.

Net income was $3.0 million or $0.19 per diluted share for the nine-month period ended September 30, 2016 compared to $1.6 million or $0.10 per diluted share in the same period in 2015.

Balance Sheet

Cash and cash equivalents were approximately $9.2 million as of September 30, 2016 compared to cash and cash equivalents of $5.6 million as of December 31, 2015.

The Company did not repurchase any shares of common stock during the third quarter of 2016. Approximately 1.2 million shares remain available to repurchase under the company's authorized program as of September 30, 2016. The stock repurchase program has no expiration date and may be suspended or discontinued at any time.

Conference Call

The Company will host a conference call to discuss these results with additional comments and details on Thursday, November 10, 2016 at 10:00 a.m. ET. The call will be broadcast live over the Internet hosted at the Investor Relations section of Lifeway Foods' website at www.lifewaykefir.com, and will be archived online. In addition, listeners may dial 877-407-3982 in North America, and international listeners may dial 201-493-6780. Participants from the Company will be Julie Smolyansky, President and Chief Executive Officer, Ed Smolyansky, Chief Operating Officer, and John Waldron, Chief Financial Officer.

About Lifeway Foods

Lifeway Foods, Inc. (LWAY), recently named 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 frozen kefir, specialty cheeses and a ProBugs line for kids. Lifeway's tart and tangy cultured dairy products are available throughout the United States and on a small, but growing basis, in

Canada, Latin America and the United Kingdom. Learn how Lifeway is good for more than just you at www.lifewaykefir.com.

Find Lifeway Foods, Inc. on Facebook: www.facebook.com/lifewaykefir
Follow Lifeway Foods on Twitter: http://twitter.com/lifeway_kefir
YouTube: http://www.youtube.com/user/lifewaykefir

Forward-Looking Statements

All statements in this release (and oral statements made regarding the subjects of this release) other than historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of uncertainties and factors, many of which are outside the Company's control, which could cause actual results to differ materially from such statements. Forward-looking statements often address our expected future business and financial performance, and often contain words such as "believe," "expect," "anticipate," "intend," "plan," or "will." By their nature, forward-looking statements address matters that are subject to risks and uncertainties. Any such forward-looking statements may involve risk and uncertainties that could cause actual results to differ materially from any future results encompassed within the forward-looking statements. Examples of such forward-looking statements include, but are not limited to, statements regarding our expectations with regard to any restated amount in our financial statements for the Restated Period or our anticipated financial results for the three months ended March 31, 2016. Factors that could cause or contribute to such differences include: the review of the Company's accounting, accounting policies and internal control over financial reporting; the preparation of and review of the Amended Form 10-Q; and the subsequent discovery of additional adjustments to the Company's previously issued financial statements. Actual events or results may differ materially from the Company's expectations. In addition, our financial results and stock price may suffer as a result of this review and any subsequent determinations from this process or any actions taken by governmental or other regulatory bodies as a result of this process.

These forward-looking statements are also affected by the risk factors, forward-looking statements and challenges and uncertainties described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, and Lifeway's other filings with the SEC, which are available at www.lifewaykefir.com. Except as required by law, the Company expressly disclaims any intention or obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

Contact:
Lifeway Foods, Inc.
Phone: 877.281.3874
Email: info@Lifeway.net

Investor Relations:
ICR
Katie Turner
Hunter Wells
646.277.1228

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2016 and December 31, 2015
(In thousands)

	September 30, 2016 (Unaudited)	December 31, 2015
Current assets		
Cash and cash equivalents	$ 9,164	$ 5,646
Investments, at fair value	—	2,216
Certificates of deposits in financial institutions	—	513
Inventories	9,186	7,664
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of $1,800 at September 30, 2016 and December 31, 2015	10,426	9,604
Prepaid expenses and other current assets	550	201
Deferred income taxes	509	556
Refundable income taxes	521	449
Total current assets	**30,356**	**26,849**
Property and equipment, net	**21,603**	**21,375**
Intangible assets		
Goodwill & indefinite-lived intangibles	14,068	14,068
Other intangible assets, net	1,815	2,344
Total intangible assets	**15,883**	**16,412**
Other Assets	368	282
Total assets	**$ 68,210**	**$ 64,918**
Current liabilities		
Current maturities of notes payable	$ 840	$ 840
Accounts payable	8,762	8,393
Accrued expenses	2,002	1,538
Accrued income taxes	267	52
Total current liabilities	**11,871**	**10,823**
Notes payable	**6,489**	**7,119**
Deferred income taxes	**2,162**	**1,719**
Total liabilities	**20,522**	**19,661**
Stockholders' equity		
Common stock, no par value; 40,000 shares authorized; 17,274, shares issued; 16,141 and 16,210 shares outstanding at September 30, 2016 and December 31, 2015 respectively	6,509	6,509
Paid-in-capital	2,133	2,033
Treasury stock, at cost	(10,468)	(9,730)
Retained earnings	49,514	46,516
Accumulated other comprehensive income (loss), net of taxes	—	(71)
Total stockholders' equity	**47,688**	**45,257**
Total liabilities and stockholders' equity	**$ 68,210**	**$ 64,918**

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the Three Months and Nine Months ended September 30, 2016 and 2015
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30, 2016	Three Months Ended September 30, (Revised) 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, (Revised) 2015
Net sales	$ 29,990	$ 29,599	$ 93,691	$ 89,042
Cost of goods sold	21,478	20,049	65,480	63,916
Depreciation expense	533	614	1,797	1,809
Total cost of goods sold	22,011	20,663	67,277	65,725
Gross profit	7,979	8,936	26,414	23,317
Selling expenses	4,306	2,706	10,733	8,626
General and administrative	3,308	3,998	10,300	10,643
Amortization expense	176	179	529	537
Total operating expenses	7,790	6,883	21,562	19,806
Income from operations	189	2,053	4,852	3,511
Other income (expense):				
Interest expense	(56)	(55)	(161)	(179)
Gain / (Loss) on sale of investments, net reclassified from OCI	12	1	(15)	(21)
Impairment of investments	—	(205)	—	(385)
(Loss) / Gain on sale of property and equipment	(156)	—	(307)	243
Other income (expense), net	28	26	105	173
Total other income (expense)	(172)	(233)	(378)	(169)
Income before provision for income taxes	17	1,820	4,474	3,342
Provision for income taxes	81	927	1,476	1,697
Net income (loss)	$ (64)	$ 893	$ 2,998	$ 1,645
Basic earnings (loss) per common share	$ (0.00)	$ 0.05	$ 0.19	$ 0.10
Diluted earnings (loss) per common share	$ (0.00)	$ 0.05	$ 0.19	$ 0.10
Weighted average number of shares outstanding – Basic	16,141	16,346	16,159	16,346
Weighted average number of shares outstanding – Diluted	16,161	16,346	16,181	16,346
COMPREHENSIVE INCOME (LOSS)				
Net income (loss)	$ (64)	$ 893	$ 2,998	$ 1,645
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investments, net of taxes	6	(183)	62	(247)
Reclassifications to earnings:				
Other than temporary impairment of investments, net of taxes				
Realized (gains) losses on investments, net of taxes	(8)	124	9	247
Comprehensive income (loss)	$ (66)	$ 834	$ 3,069	$ 1,645

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2016 and 2015
(Unaudited)
(In thousands)

Cash flows from operating activities:	**2016**	**2015**
Net income	**$ 2,998**	**$ 1,645**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	2,326	2,346
Loss on sale of investments, net	15	21
Impairment of investments	—	385
Deferred income taxes	444	(472)
Reserve for inventory obsolescence	89	—
Stock based compensation	100	—
Loss (Gain) on sale of property and equipment	307	(243)
(Increase) decrease in operating assets:		
Accounts receivable	(823)	(540)
Inventories	(1,611)	(1,118)
Refundable income taxes	(72)	1,011
Prepaid expenses and other current assets	(310)	252
Increase (decrease) in operating liabilities:		
Accounts payable	370	(396)
Accrued expenses	465	1,038
Accrued income taxes	215	449
Net cash provided by operating activities	**4,513**	**4,378**
Cash flows from investing activities:		
Purchases of investments	(559)	(1,369)
Proceeds from sale of investments	2,751	1,230
Redemption of certificates of deposits	513	250
Investments in certificates of deposit	—	(635)
Purchases of property and equipment	(2,481)	(1,619)
Proceeds from sale of property and equipment	149	343
Net cash provided by (used in) investing activities	**373**	**(1,800)**
Cash flows from financing activities:		
Purchase of treasury stock	(738)	—
Repayment of notes payable	(630)	(827)
Net cash used in financing activities	**(1,368)**	**(827)**
Net increase in cash and cash equivalents	**3,518**	**1,751**
Cash and cash equivalents at the beginning of the period	5,646	3,260
Cash and cash equivalents at the end of the period	**$ 9,164**	**$ 5,011**
Supplemental cash flow information:		
Cash paid for income taxes, net of refunds	**$ 886**	**$ 795**
Cash paid for interest	**$ 162**	**$ 178**