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

Form 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2023

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____________ to _____________

Commission file number: 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 St., Morton Grove, Illinois 60053
(Address of principal executive offices) (Zip Code)

(847) 967-1010
(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common Stock, No Par Value	LWAY	Nasdaq Global Market

Securities registered under Section 12(g) of the Exchange Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☐ No ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the stock was last sold as of June 30, 2023 ($6.55 per share as quoted on the Nasdaq Global Market) was $47,381,148.

As of March 15, 2024, 14,690,987 shares of the registrant’s common stock, no par value, were outstanding.

Portions of the Registrant’s Proxy Statement for the Annual Meeting of Shareholders to be held on June 14, 2024, are incorporated by reference into Part III.

Table of Contents

FORWARD LOOKING STATEMENTS

In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, readers are advised that this document, and any document incorporated by reference herein, may contain forward looking statements. Forward looking statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those indicated by the forward looking statements. These statements use words, variations of words, and negatives of words such as "may," "could," "believe," "future," "depend," "expect," "will," "result," "can," "remain," "assurance," "subject to," "require," "limit," "impose," "guarantee," "restrict," "continue," "become," "predict," "likely," "opportunities," "effect," "change," and "estimate." Examples of forward looking statements include, but are not limited to, (i) projections of revenues, income or loss, earnings or losses per share, capital expenditures, dividends, capital structure and other financial items, (ii) statements of Lifeway Foods, Inc.’s (which, together with its subsidiaries as the context requires, may be referred to as “Lifeway”, the “Company”, “our”, “we” or “us”) plans and objectives, including the introduction of new products, or estimates or predictions of actions by customers, suppliers, competitors or regulatory authorities, (iii) statements of future economic performance, and (iv) statements of assumptions underlying other statements and statements about the Company or its business.

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

- the actions of our competitors and suppliers, including those related to price competition;
- the actions and decisions of our customers or consumers;
- our ability to successfully implement our business strategy;
- changes in the pricing of commodities;
- the effects of government regulation;
- disruptions to our supply chain, or our manufacturing and distribution capabilities, including those due to cybersecurity threats, wars or pandemics; and
- the other risks and uncertainties that are set forth in Item 1, “Business”, Item 1A “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and that are described from time to time in our filings with the SEC.

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

PART I

ITEM 1. BUSINESS

OVERVIEW

Lifeway was founded in 1986 by Michael Smolyansky, ten years after he and his family emigrated from Eastern Europe to the United States. Lifeway was the first to successfully introduce kefir to the U.S. consumer on a commercial scale, initially catering to ethnic consumers in the Chicago, Illinois metropolitan area. Lifeway has grown to become the largest producer and marketer of kefir in the U.S. and an important player in the broader market spaces of probiotic-based products and natural, "better for you" foods.

PRODUCTS

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

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

Our product categories are:

- Drinkable kefir, sold in a variety of organic and non-organic sizes, flavors, and types;
- European-style soft cheeses, including farmer cheese, white cheese, and Sweet Kiss;
- Cream and other, which consists primarily of cream, a byproduct of making our kefir;
- ProBugs, a line of kefir products designed for children;
- Drinkable yogurt, sold in a variety of sizes and flavors; and
- Other dairy, which consists primarily of Fresh Made butter and sour cream.

Net sales of products by category were as follows for the years ended December 31:

	2023		2022	
In thousands	$	%	$	%
Drinkable Kefir other than ProBugs	$ 127,726	80%	$ 110,247	78%
Cheese	13,781	9%	12,651	9%
Cream and other	7,382	4%	7,465	5%
Drinkable Yogurt	6,236	4%	6,105	4%
Probugs Kefir	3,429	2%	3,403	3%
Other dairy	1,569	1%	1,697	1%
Net Sales	$ 160,123	100%	$ 141,568	100%

Product innovation and new product development

Lifeway is committed to maintaining its positions as the leading producer of kefir and a recognized leader in the market for probiotic products. We routinely evaluate opportunities for new product development, flavors and formulations, improved package design, new product configurations and other innovation avenues. Beyond our core drinkable kefir products, we have an ongoing effort to extend the strength of the Lifeway brand and leverage the capabilities of the Lifeway organization into fresh categories and into additional channels of trade, such as Convenience; Foodservice; Club; and Drug.

Lifeway considers research and development of new products to be a significant part of our overall business philosophy. Where possible, we leverage our existing staff and facilities to conduct our innovation, research, and development efforts, rather than maintaining a dedicated research and development staff and facilities or relying solely on third parties.

PRODUCTION

Manufacturing

During 2023 and 2022, approximately 93% and 96% of our revenue, respectively, was derived from products manufactured at our own facilities. We currently operate the following manufacturing and distribution facilities:

- Morton Grove, Illinois, which produces drinkable kefir and cheese products;
- Waukesha, Wisconsin, which produces drinkable kefir products and from which we warehouse and distribute products;
- Niles, Illinois, which stores and serves as a warehouse and distribution point for products; and
- Philadelphia, Pennsylvania, which produces drinkable kefir, cheese, and other dairy products, from which we warehouse and distribute products.

All our fixed assets associated with manufacturing, storage, and distribution of our products are in the United States.

Co-Packers

In addition to the products manufactured in our own facilities, independent manufacturers (“co-packers”) manufacture some of our products. We have a co-packer agreement to manufacture drinkable yogurt and a small percentage of our Lifeway kefir product in California. We have a co-packer agreement to manufacture drinkable kefir in Ireland, to serve our European markets. During 2023 and 2022, approximately 7% and 4% of our revenue, respectively, was derived from products manufactured by co-packers. Our domestic co-packer is Safe Quality Food (“SQF”) certified and follows Good Manufacturing Practices (“GMPs”). Additionally, the co-packers are required to ensure our products are manufactured in accordance with our quality specifications and that they are compliant with all applicable laws and regulations.

SALES AND DISTRIBUTION

Sales Organization

We sell our products primarily through our direct sales force, brokers, and distributors. Our sales organization strives to cultivate strong, collaborative relationships with our customers that facilitate favorable shelf placement for our products, which we believe drives sales volumes when combined with our marketing efforts and our brand strength. Our relationships with food brokers provide additional customer coverage as a supplement to our direct sales force.

Distribution inside the United States

Lifeway's products reach the consumer through three primary "route-to-market" pathways:

- Retail-direct;
- Distributor; and
- Direct store delivery ("DSD").

Under the retail-direct channel, we sell our products to retailers and deliver it through either the retailers' carriers or third-party carriers that deliver to such retailers' distribution centers. In turn, our retailers then deliver the products to their respective stores. Under the retail direct-model, optimal product merchandising, assortment and product presentation are attended to by the retailer. Sales to our retail-direct customers represent approximately 50% of our total net sales for the year ended 2023.

Under the distributor channel, we sell our products to distributors and deliver it through either the distributors' carriers or third-party carriers that deliver to such distributors' designated warehouses. In turn, our distributors then sell and ship our products to their retail customers. Our distributors often use a DSD model of their own to make deliveries directly to individual stores, but they also make deliveries to retailers' distribution centers. The distributor attends to optimal product merchandising, assortment, and product presentations at the retail end of the channel, with support from Lifeway's direct sales force and broker network. Sales to our distributor customers represent approximately 48% of our total net sales for year ended 2023.

Under the direct store delivery ("DSD") route to market, we sell our products to retailers and deliver it directly to the store using Company-owned vehicles and a team of Lifeway merchandisers who engage face-to-face with store management to ensure optimal product assortments and presentations. We operate our DSD model in the Chicago, Illinois metropolitan area only. Sales to our DSD customers represent approximately 2% of our total net sales for the year ended 2023.

Distribution outside of the U.S.

Lifeway's primary market is the United States; however, certain of our distributors based in the United States sell our products to retailers in Mexico and portions of South America and the Caribbean. Additionally, Lifeway products reach consumers in France, Ireland, and the Middle East under third party co-manufacturing agreements and in-country broker and distributor arrangements. Sales distributed outside the United States represented approximately 2% of net sales for the year ended 2023.

Channel- and Market-Specific Distribution and Broker Representation Arrangements

Lifeway's generally standardized agreements with independent distributors and food brokers allow us the latitude to establish new relationships as opportunities and needs arise. Where appropriate given the relationship, market, and business opportunity, we offer exclusive channels, markets, and/or territories to our distributors and brokers.

We provide our independent distributors with products at wholesale prices for distribution to their retail accounts. Lifeway believes that the prices at which we sell our products to distributors are competitive with the prices generally paid by distributors for similar products in the markets served. Due to the perishable nature of our products and the costs to return, we do not offer return privileges to any of our distributors or channel customers; however, from time to time we do provide our customers with allowances for non-saleable product.

Lifeway engages independent food brokers generally on a commission basis, subject in some cases to a minimum commission guarantee. The commissions vary based on the scope of services provided and customers served. Our brokers represent our products to a variety of prospective buyers. These buyers could be specialty stores, retail grocery chains, wholesalers, foodservice operators and distributors, drug chains, mass merchandisers, industrial users, schools and universities, or military installations. With support from our direct sales force, brokers may provide other value-added services. These may include scheduling and coordinating promotions, merchandising, centralized ordering, and data collection services.

MARKETING

We use a combination of sales incentives, trade promotions, and consumer promotions to market our products.

Sales Incentives and Trade Promotion Allowances

Lifeway offers various sales incentives and trade promotional programs to its retailer and distributor customers from time to time in the normal course of business. These sales incentives and trade promotion programs typically include rebates, in-store display and demo allowances, allowances for non-saleable product, coupons, and other trade promotional activities. Trade promotions support price features, displays, and other merchandising of our products by our retail and distributor customers. We record these arrangements as a reduction to net sales in our consolidated statements of operations.

Consumer Promotions and Marketing Campaigns

We engage in an ongoing and wide variety of marketing and media campaigns – primarily digital and social media, print advertising, television advertising, and event marketing. We complement these marketing and media efforts with industry-related trade shows and in-store promotional events. Our consumer marketing efforts also include cooperative advertising programs with our retail customers and various couponing campaigns, online consumer relationship programs, and other similar forms of promotions.

Our marketing efforts are aimed at stimulating demand with new and existing consumers by elevating awareness and consumption of kefir and probiotics, as well as enhancing our brand equity. Our awareness marketing seeks to promote the positive nutritional attributes and flavor of our products.

COMPETITION

Lifeway competes with a limited number of other domestic kefir producers and consequently faces a small amount of direct competition for kefir products. However, Lifeway's kefir-based products compete with other dairy products, such as spoonable and drinkable yogurt, and, increasingly, with non-dairy probiotic products. Many of our competitors are well-established and have significantly greater financial resources than Lifeway to promote their products.

SUPPLIERS

We purchase our ingredients such as milk, cultures, and other ingredients from unaffiliated suppliers. In addition, we purchase significant quantities of ingredients and product packaging materials and natural gas and electricity to operate our facilities. Purchases are made through purchase orders or contracts, and price, delivery terms, and product specifications vary. The prices for our principal inputs can fluctuate based on economic, weather, and other conditions. Lifeway believes it has access to alternative suppliers for critical ingredients, packaging, and other input requirements.

MAJOR CUSTOMERS

During the year ended December 31, 2023, two customers collectively accounted for approximately 24% of our total net sales. Two customers collectively accounted for approximately 25% of net accounts receivable as of December 31, 2023.

SEGMENTS

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

DANONE SA

Since October 1999, Danone North America Public Benefit Corporation, through predecessors, affiliates and/or subsidiaries (collectively "Danone"), has been the beneficial owner of 20% or more of the outstanding common stock of Lifeway. Lifeway and Danone are parties to a Stockholders' Agreement dated October 1, 1999, which as amended provides Danone the right to designate one director nominee, provides Danone with anti-dilutive rights relating to certain future offerings and issuances of capital stock, and grants Danone limited registration rights.

INTELLECTUAL PROPERTY

We believe that our rights in our trademarks and service marks are important to our marketing efforts to develop brand recognition and differentiate our brand from our competitors and are a valuable part of our business. We own many domestic and international trademarks and service marks. In addition, we own numerous registered and unregistered copyrights, registered domain names, and proprietary trade secrets, trade dress, technology, know-how, processes, and other proprietary rights that are not registered. Depending on the jurisdiction, trademarks are generally valid as long as they are in use and/or their registrations are properly maintained, and they have not been found to have become generic. Registrations of trademarks can also generally be renewed indefinitely as long as the trademarks are in use. We also have licenses to use certain trademarks inside and outside of the United States and to certain product formulas, all subject to the terms of the agreements under which such licenses are granted. Lifeway's policy is to pursue registration of intellectual property whenever appropriate. We protect our intellectual property rights by relying on a combination of trademark, copyright, trade dress, trade secret and other intellectual property laws, and domain name dispute resolution systems; as well as licensing agreements, third-party confidentiality, nondisclosure, and assignment agreements; and by policing third-party misuses of our intellectual property. We regard the Lifeway family of trademarks and other intellectual property as having substantial value and as being an important factor in the marketing of our products. The loss of such protection would have a material adverse impact on our operations and share price.

REGULATION

Lifeway is subject to extensive regulation by federal, state, and local governmental authorities. In the United States, agencies governing the manufacture, marketing, and distribution of our products include, among others, the Federal Trade Commission ("FTC"), the United States Food & Drug Administration ("FDA"), the United States Department of Agriculture ("USDA"), the United States Environmental Protection Agency ("EPA"), the Occupational Safety and Health Administration ("OSHA"), and their state and local equivalents. Under various statutes, these agencies prescribe, among other things, the requirements and standards for quality, safety, and representation of our products to consumers. We are also subject to federal laws and regulations relating to our products and production. For example, as required by the National Organic Program ("NOP"), we rely on third parties to certify certain of our products and production locations as organic. Additionally, our facilities are subject to various laws and regulations regarding the release of material into the environment and the protection of the environment in other ways.

Internationally, we are subject to the laws and regulatory authorities of the foreign jurisdictions in which we manufacture and sell our products, including the Food Standards Agency in the United Kingdom; the National Service of Health, Food Safety and Agro-Food Quality (known by its Spanish-language acronym “SENASICA”) and the Federal Commission for the Protection from Sanitary Risks (“COFEPRIS”) in Mexico; the Food Safety Authority in Ireland; and the European Food Safety Authority, which supports the European Commission, as well as individual country, province, state, and local regulations.

Changes in these laws or regulations, or the introduction of new laws or regulations, could increase the costs of doing business for the Company, our customers, or suppliers, or restrict our actions, causing our results of operations to be adversely affected.

MILK INDUSTRY REGULATION

Our primary raw material is milk. The federal government establishes minimum prices for raw milk purchased in federally regulated areas. Some states have established their own rules for determining minimum prices. The federal government announces prices for raw milk each month. We are subject to federal government regulations that establish minimum prices for milk, and we also pay producer (“over-order”) premiums, federal order administration costs, and other related charges that vary by milk product, location, and supplier.

FOOD SAFETY

Lifeway takes appropriate precautions to ensure the safety of our products. In addition to routine inspections by state and federal regulatory agencies, including the USDA and FDA, we have instituted Company-wide systems that address topics such as supplier control; ingredient, packaging, and product specifications; preventive maintenance; pest control; and sanitation. Each of our facilities also has in place a hazard analysis critical control points (“HACCP”) plan that identifies critical pathways for contaminants and mandates control measures that must be used to prevent, eliminate or reduce relevant food-borne hazards. To the extent that the federal Food Safety Modernization Act applies to Lifeway’s business, we develop food safety plans and implement preventive measures to protect against food contamination. We also maintain a product recall plan, including lot identifiability and traceability measures that allow us to act quickly to reduce the risk of consumption of any product that we suspect may pose a health issue.

We maintain various types of insurance, including product liability and product recall coverages, which we believe to be sufficient to cover potential product liabilities.

We have also implemented the SQF program at our Illinois and Wisconsin facilities. SQF is a fully integrated food safety and quality management protocol designed specifically for the food sector. The SQF Code, based on universally accepted CODEX Alimentarius, HACCP guidelines and the Global Food Safety Initiative (“GFSI”) standards, offers a comprehensive methodology to manage food safety and quality simultaneously. SQF certification provides an independent and external validation that a product, process or service complies with international, regulatory and other specified standards.

SEASONALITY

Lifeway’s business is not seasonal.

EMPLOYEES

As of December 31, 2023, we employed 288 full-time and one part-time employee, of which 98 were members of a union bargaining unit in Illinois.

AVAILABLE INFORMATION

Lifeway maintains a corporate website at www.lifewayfoods.com and makes available, free of charge, through this website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports that we file with or furnish to the SEC as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on our website is not part of this Report.

ITEM 1A. RISK FACTORS

In evaluating and understanding us and our business, you should carefully consider the risks described below, in conjunction with all of the other information included in this Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in Part II, Item 7 and “Quantitative and Qualitative Disclosures About Market Risk” contained in Part II, Item 7A. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may become important factors that adversely affect our business. If any of the events or circumstances described in the following risk factors actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected.

RISKS RELATED TO OUR BUSINESS

Our product categories face a high level of competition, which could negatively impact our sales and results of operations.

We compete with a limited number of other domestic kefir producers and consequently face a small amount of direct competition for kefir products. However, our kefir-based products compete with other dairy products, notably spoonable and drinkable yogurt, and, increasingly, with non-dairy probiotic products that incorporate kefir cultures but are not kefir. We face significant competition for limited retailer shelf space in each of our product categories. Competition in our product categories is based on product innovation, product quality, price, brand recognition and loyalty, effectiveness of marketing, promotional activity, and our ability to identify and satisfy consumer tastes and preferences. We believe that our brands have benefited in many cases from being the first to introduce products in their categories, and their success has attracted competition from other food and beverage companies that produce branded products, as well as from private label competitors. Some of our competitors, such as Danone, General Mills, Chobani, Hain Celestial Group, and Nestle, have substantial financial and marketing resources. These competitors and others may be able to introduce innovative products more quickly or market their products more successfully than we can, which could cause our growth rate to be slower than we anticipate and could cause sales to decline.

We also compete with producers of non-dairy products, such as Millennium Products and PepsiCo, that have lower ingredient and production-related costs. As a result, these competing producers may be able to offer their products to customers at a lower price point. This could cause us to lower our prices, resulting in lower profitability or, in the alternative, cause us to lose market share if we fail to lower prices. Furthermore, private label competitors are generally able to sell their products at lower prices because private label products typically have lower marketing costs than their branded counterparts. If our products fail to compete successfully with other branded or private label offerings, demand for our products and our sales volumes could be negatively impacted.

Additionally, due to high levels of competition, certain of our key retailers may demand price concessions on our products or may become more resistant to price increases for our products. Increased price competition and resistance to price increases have had, and may continue to have, a negative effect on our results of operations.

We may not be able to successfully implement our business strategy for our brands on a timely basis or at all.

We believe that our future success depends, in part, on our ability to implement our strategy of leveraging our existing brands with our new products to maintain our market position in our product categories; drive increased sales; acquire or establish new brands; and create strategic alliances including potential joint ventures. Our ability to implement this strategy depends, among other things, on our ability to:

- enter into distribution and other strategic arrangements with third-party retailers and other potential distributors of our products;
- compete successfully in the product categories in which we choose to operate;
- introduce timely, new, cost-effective, and appealing products and innovate successfully within our existing product categories;
- develop and maintain consumer interest in and demand for our brands considering prevailing consumer tastes and preferences;
- increase our brand recognition and loyalty;
- enter into strategic arrangements with third-party suppliers to obtain necessary raw materials;
- identify suitable acquisition candidates or joint venture partners and accurately assess their value, growth potential, strengths, weaknesses, contingent and other liabilities, and potential profitability;
- negotiate acquisitions and joint ventures on terms acceptable to us; and
- integrate acquired brands, products, or joint ventures into our company and our business strategy.

If we fail to execute these and other important elements of our business strategy, our business and results of operations could be adversely affected.

One key element of our business strategy is to introduce timely, new, cost-effective, and appealing products and to innovate successfully within our existing product categories. However, consumer tastes and preferences change rapidly, and evolve over time. Factors that may affect consumer tastes and preferences include:

- dietary trends and increased attention to nutritional values, such as the sugar, fat, protein, fiber or calorie content of different foods and beverages;
- concerns regarding the health effects of specific ingredients and nutrients, such as sugar, other sweeteners, dairy, soybeans, nuts, oils, vitamins, fiber and minerals;
- concerns regarding the public health consequences associated with obesity, particularly among young people;
- decisions by yogurt and non-dairy beverage manufacturers to mislabel their products as “kefir” in order to benefit from our branding and marketing efforts, a marketing ploy that can cause significant confusion and misunderstanding among consumers; and
- increased awareness of the environmental and social effects of food processing.

Our future investments may not produce the results we expect when we expect them for a variety of reasons including those described herein. Our future product development and innovation will be reliant on our ability to identify and develop potential new growth opportunities. This process is inherently risky and will result in investments of substantial time and resources for which we may not achieve any return or value. Successful product development and innovation is also affected by our ability to launch new or improved products successfully and on a timely and cost-effective basis.

We may have to pay cash, incur debt, or issue equity, equity-linked, or debt securities to fund our business strategy, or may be unable to fund that strategy. Any of these events could adversely affect our financial results and our business. We could experience similar effects if we invest resources in a strategy that ultimately proves unsuccessful. If, due to a failure of our strategy or any other reason, consumer demand for our products declines, our sales volumes, results of operations, and our business could be negatively affected, and we may not be able to create or sustain growth or successfully implement our business strategy.

Interruption of our supply chain could affect our ability to manufacture or distribute products, could adversely affect our business and sales, and/or could increase our operating costs and capital expenditures.

We have several supply agreements with suppliers and co-packers that require them to provide us with certain ingredients, packaging, other inputs, and finished goods. For certain items, we rely on a single supplier or co-packer as our sole source for the item. Our suppliers and co-packers are subject to risk, including labor disputes, union organizing activities, financial liquidity, inclement weather, natural disasters, supply constraints, and general economic and political conditions that could limit their ability to timely provide us with acceptable product. Although other sources are available for these items, if our current sources are unable to fulfill our needs for any reason, we may not be able to timely engage a replacement source that can timely provide us with acceptable products or on terms favorable to us or at all, which could disrupt our ability to manufacture and distribute products. Such disruptions could have a material adverse effect on our business, consolidated financial condition or results of operations.

Disruption of our manufacturing or distribution chains or information technology systems, including disruption due to cybersecurity threats, could adversely affect our business.

The success of our business depends, in part, on maintaining a strong production platform and we rely primarily on internal production resources to fulfill our manufacturing needs. Our ongoing initiatives to expand our production platform and our productive capacity could fail to achieve such objectives and, in any case, could increase our operating costs beyond our expectations and could require significant additional capital expenditures. If we cannot maintain sufficient production, warehousing, and distribution capacity, either internally or through third party agreements, we may be unable to meet customer demand and/or our manufacturing, distribution, and warehousing costs may increase, which could negatively affect our business.

Furthermore, damage or disruption to our manufacturing or distribution capabilities due to weather, natural disaster, fire, environmental incident, terrorism, cybersecurity threats and other security breaches, pandemic, strikes, the financial or operational instability of key distributors, warehousing, and transportation providers, or other reasons could impair our ability to manufacture or distribute our products.

We rely on a limited number of production and distribution facilities. A disruption in operations at any of these facilities or any other disruption in our supply chain relating to common carriers, supply of raw materials and finished goods, or otherwise, whether as a result of casualty, natural disaster, power loss, telecommunications failure, cybersecurity threat, terrorism, labor shortages, contractual disputes or other causes, could significantly impair our ability to operate our business and adversely affect our relationship with our customers. Furthermore, our insurance coverage may not be adequate to cover all related costs.

Our information technology systems are also critical to the operation of our business and essential to our ability to successfully perform day-to-day operations. These systems include, without limitation, networks, applications, and outsourced services in connection with the operation of our business. A failure of our information technology systems to perform as we anticipate could disrupt our business and result in transaction errors, processing inefficiencies, and sales losses, causing our business to suffer. In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, and cybersecurity threats. Cybersecurity threats in particular are persistent, evolve quickly and include, without limitation, computer viruses, unauthorized attempts to access information, denial of service attacks, and other electronic security breaches. Like our customers, suppliers, subcontractors and other third parties with whom we do business generally, we expect that we will continue to be the subject of cybersecurity threats. In some cases, we must rely on the safeguards put in place by the third parties with whom we do business to protect against security threats. We believe we have implemented appropriate measures and controls and have invested in sufficient resources to appropriately identify and monitor these threats and mitigate potential risks, including risks involving our customers and suppliers. However, there can be no assurance that any such actions will be sufficient to prevent cybersecurity breaches, disruptions to mission critical systems, the unauthorized release of sensitive information or corruption of data, or harm to facilities or personnel.

These threats and other events could disrupt our operations, or the operations of our customers, suppliers, subcontractors and other third parties; could require significant management attention and resources; could result in the loss of business, regulatory actions and potential liability; and could negatively impact our reputation among our customers and the public. Any of these outcomes could have a negative impact on our financial condition, results of operations, or liquidity.

Our debt and financial obligations could adversely affect our financial condition, our ability to obtain future financing, and our ability to operate our business.

We have outstanding debt obligations that could adversely affect our financial condition and limit our ability to successfully implement our business strategy. Furthermore, from time to time, we may need additional financing to support our business and pursue our business strategy, including strategic acquisitions. Our ability to obtain additional financing, if and when required, will depend on investor demand, our operating performance, the condition of the capital markets, and other factors. We cannot assure that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked, or debt securities, those securities may have rights, preferences, or privileges senior to those of our common stock, and, in the case of equity and equity-linked securities, our existing stockholders may experience dilution.

As of December 31, 2023, we had $0 outstanding under the Revolving Credit Facility and $2.73 million outstanding under the note payable, net of $17 thousand of unamortized deferred financing. Our loan agreements contain certain restrictions and requirements that among other things:

- require us to maintain a quarterly fixed charge coverage ratio and minimum working capital ratio;
- limit our ability to obtain additional financing in the future for working capital, capital expenditures and acquisitions, to fund growth or for general corporate purposes;
- limit our future ability to refinance our indebtedness on terms acceptable to us or at all;
- limit our flexibility in planning for or reacting to changes in our business and market conditions or in funding our strategic growth plan; and
- impose on us financial and operational restrictions.

Our ability to meet our debt service obligations will depend on our future performance, which will be affected by the other risk factors described in this Annual Report on Form 10-K. If we do not generate enough cash flow to pay our debt service obligations, we may be required to refinance all or part of our existing debt, sell our assets, borrow more money or raise equity. There is no guarantee that we will be able to take any of these actions on a timely basis, on terms satisfactory to us, or at all.

Our Revolving Credit Facility and term loan bear interest at variable rates. If market interest rates increase, it will increase our debt service requirements, which could adversely affect our cash flow.

Our loan agreements also contain provisions that restrict our ability to:

- borrow money or guarantee debt;
- create liens;
- make specified types of investments and acquisitions;
- pay dividends on or redeem or repurchase stock;
- enter into new lines of business;
- enter into transactions with affiliates; and
- sell assets or merge with other companies.

These restrictions on the operation of our business could harm our ability to execute on our business strategy by, among other things, limiting our ability to take advantage of financing, merger and acquisition opportunities, and other corporate opportunities. Various risks, uncertainties, and events beyond our control could affect our ability to comply with these covenants. Unless cured or waived, a default would permit lenders to accelerate the maturity of the debt under the credit agreement and to foreclose upon the collateral securing the debt.

Loss of our key management or other personnel, or an inability to attract such management and other personnel, could negatively impact our business.

We depend on the skills, working relationships, and continued services of key personnel, including our experienced senior management team. We also depend on our ability to attract and retain qualified personnel to operate and expand our business. If we lose one or more members of our senior management team whose responsibilities cannot otherwise be distributed among our other officers, or if we fail to attract talented new employees, our business and results of operations could be negatively affected.

Employee strikes and other labor-related disruptions may adversely affect our operations.

We have a union contract governing the terms and conditions of employment for a significant portion of our manufacturing workforce in Illinois. Although we believe union relations since the union’s certification as the exclusive bargaining representative of this portion of our workforce have been amicable, there is no assurance that this will continue in the future or that we will not be subject to future union organizing activity. There are potential adverse effects of labor disputes with our own employees or by others who provide warehousing, transportation, and distribution, both domestic and foreign, of our raw materials or other products. Strikes or work stoppages or other business interruptions could occur if we are unable to renew collective bargaining agreements on satisfactory terms or enter into new agreements on satisfactory terms, which could impair manufacturing and distribution of our products or result in a loss of sales, which could adversely impact our business, financial condition, or results of operations. The terms and conditions of existing, renegotiated, or new collective bargaining agreements could also increase our costs or otherwise affect our ability to fully implement future operational changes to enhance our efficiency or to adapt to changing business needs or strategy.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products and brands.

We consider our intellectual property rights, particularly our trademarks, but also our copyrights, registered domain names, and proprietary trade secrets, technology, know-how, processes and other proprietary rights to be a significant and valuable aspect of our business. We attempt to protect our intellectual property rights by relying on a combination of trademark, copyright, trade dress, trade secret, and other intellectual property laws, and domain name dispute resolution systems; as well as licensing agreements, third-party confidentiality, nondisclosure, and assignment agreements; and by policing third-party misuses of our intellectual property. Our failure to obtain or maintain adequate protection of our intellectual property rights, or any change in law or other changes that serve to lessen or remove the current legal protections of our intellectual property, may diminish our competitiveness and could materially harm our business.

We also face the risk of claims that we have infringed third parties' intellectual property rights. Any claims of intellectual property infringement, even those without merit, could be expensive and time consuming to defend, cause us to cease making, licensing, or using products that incorporate the challenged intellectual property, require us to redesign or rebrand our products or packaging, divert management's attention and resources, or require us to enter into royalty or licensing agreements to obtain the right to use a third party's intellectual property. Any royalty or licensing agreements, if required, may not be available to us on acceptable terms or at all. Additionally, a successful claim of infringement against us could result in our being required to pay significant damages, enter into costly license or royalty agreements, or stop the sale of certain products, any of which could have a negative effect on our results of operations.

The Smolyansky family controls a substantial portion of our common stock and has the ability to control the outcome of matters submitted for stockholder approval.

Although the members of the Smolyansky family together control less than 50% of our common stock collectively, they could significantly influence any matter requiring approval by our stockholders, including the election of all of our directors and the approval or rejection of any merger, change of control, or other significant corporate transaction. It is unlikely that any person interested in acquiring Lifeway will be able to do so without obtaining the consent of some members of the Smolyansky family. The Smolyansky family's interests may not always be aligned with other stockholders' interests. By exercising their influence, members of the Smolyansky family could cause Lifeway to take actions that are at odds with the investment goals of institutional, short-term, non-voting, or other non-controlling investors, or that have a negative effect on our stock price.

Danone has certain rights under the Shareholder Agreement which give Danone the ability to control or influence the outcome of certain matters, including our ability to compensate our officers and directors in accordance with market standards, to undertake certain offerings of securities, and to consummate mergers and acquisitions or other strategic alternatives for the Company.

Although Danone holds less than 25% of our common stock, the rights Danone has under the Shareholder Agreement may prevent us from offering market standard compensation to our officers and directors or prevent third parties from making offers to enter into certain strategic transactions. Danone's exercise of their rights under the Shareholder Agreement have prevented us from consummating the issuance of certain equity as part of market standard compensation terms and amounts to certain officers and directors which could prevent us from attracting and retaining qualified key personnel. Additionally, it is possible that any offers to acquire Lifeway or purchase Lifeway equity in an offering will be made at reduced prices, if made at all, as a result of certain of Danone's rights under the Shareholder Agreement, including, without limitation, its right of first refusal on shares issued by the Company. Danone's interests may not always be aligned with other stockholders' interests. By exercising its rights under the Shareholder Agreement, Danone could prevent Lifeway from taking actions that are consistent with the investment goals of institutional, short-term, non-voting, or other non-controlling investors, or that would have a positive effect on our stock price.

Our business could be negatively affected as a result of the actions of stockholders.

Our business could be negatively affected as a result of stockholder actions, which could cause us to incur significant expense, hinder execution of our business strategy, and impact the trading value of our securities. Stockholder actions, including potential proxy contests, requires significant time and attention by management and our Board, potentially interfering with our ability to execute our strategic plan. We may be required to incur significant legal fees and other expenses related to stockholder actions, and the attention of our management may be diverted by such actions. While we welcome our stockholders' constructive input, there can be no assurance that stockholder actions would not result in negative impacts to the Company. Any of these impacts could materially and adversely affect our business and operating results, and the market price of our Common Stock could be subject to significant fluctuation or otherwise be adversely affected by stockholder actions.

RISKS RELATED TO OUR INDUSTRY

The consolidation of our customers or the loss of any of our largest customers could negatively impact our sales and results of operations.

Customers, such as supermarkets and food distributors, continue to consolidate. This consolidation has produced larger, more sophisticated organizations with increased negotiating and buying power that are able to resist price increases or demand increased promotional programs, as well as operate with lower inventories, decrease the number of brands that they carry and increase their emphasis on private label products, all of which could negatively impact our business. The consolidation of retail customers also increases the risk that a significant adverse impact on their business could have a corresponding material adverse impact on our business.

Two of our customers together accounted for 24% of our net sales in the fiscal year ended December 31, 2023. Where we enter into written agreements with our customers, they are generally terminable after short notice periods by the customer. In addition, our customers sometimes award contracts based on competitive bidding, which could result in lower profits for contracts we win and the loss of business for contracts we lose. The loss of any large customer, the reduction of purchasing levels, or the cancellation of any business from a large customer for an extended period of time could negatively affect our sales and results of operations.

We rely on sales made by or through our independent distributors to customers. Distributors purchase directly for their own account for resale. The loss of, or business disruption at, one or more of these distributors may harm our business. If we are required to obtain additional or alternative distribution agreements or arrangements in the future, we cannot be certain that we will be able to do so on satisfactory terms or in a timely manner. Our inability to enter into satisfactory distribution agreements may inhibit our ability to implement our business plan or to establish markets necessary to expand the distribution of our products successfully.

We are subject to the risk of product contamination and product liability claims, which could harm our reputation, force us to recall products and incur substantial costs.

The sale of food products for human consumption involves the risk of injury to consumers. Such injuries may result from tampering by unauthorized third parties, inadvertent mislabeling, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the storage, processing, handling or transportation phases. We also may be subject to liability if our products or production processes violate applicable laws or regulations, including environmental, health, and safety requirements, or in the event our products cause injury, illness, or death.

Under certain circumstances, we may be required to recall or withdraw products, suspend production of our products, or cease operations, which may lead to a material adverse effect on our business. In addition, customers may cancel orders for such products as a result of such events. Even if a situation does not necessitate a recall or market withdrawal, and even if we and each of our co-packers and suppliers comply in all material respects with all applicable laws and regulations, we may become subject to claims or lawsuits relating to such matters. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or physical harm, including the risk of reputational harm being magnified and/or distorted through the rapid dissemination of information over the Internet, including through news articles, blogs, chat rooms, and social media, could adversely affect our reputation with existing and potential customers and consumers and our corporate and brand image. Moreover, claims or liabilities of this type might not be covered by our insurance or by any rights of indemnity or contribution that we may have against others. We maintain product liability and product recall insurance in amounts that we believe to be adequate. However, we cannot be sure that we will not incur claims or liabilities for which we are not insured or that exceed the amount of our insurance coverage. A product liability judgment against us or a product recall could have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

We rely on independent certification for several of our products and facilities.

We rely on independent certification, such as certifications of our products as “organic,” or “gluten-free,” to differentiate our products from others. The loss of any independent certifications could adversely affect our market position as a probiotic-based product and natural, “better for you” foods company, which could harm our business. We rely on independent SQF certification at some of our facilities, a certification that some of our customers require us to maintain.

We must comply with the requirements of independent organizations or certification authorities in order to label our products as certified. For example, we can lose our “organic” certification if a manufacturing plant becomes contaminated with non-organic materials, or if it is not properly cleaned after a production run. In addition, all organic raw materials must be certified organic or organic compliant. Our products could lose their organic certifications if our raw material suppliers lose their organic certifications. Similarly, we could lose our SQF certification if we do not meet the requirements of the SQF Code. The loss of these certifications could cause us to lose customers that require Lifeway products and/or facilities to carry some or all of them, which could negatively affect our sales and results of operations.

Increases in the cost of milk could reduce our gross margin and profit.

Conventional and organic milk, our primary raw material, is an agricultural commodity that is subject to price fluctuations. Conventional milk prices were lower in fiscal 2023 than the prior year, and there can be no assurance that such prices will remain at these levels in the future. The supply and price of milk may be impacted by, among other things, weather, natural disasters, real or perceived supply shortages, lower dairy and crop yields, general increases in farm inputs and costs of production, political and economic conditions, labor actions, government actions, and trade barriers. Increases in the market price for milk or over-order premiums charged by producers may also impact our ability to enter into purchase commitments at a fixed price. There can be no assurance that our purchasing practices will mitigate future price risk. As a result, increases in the cost of milk could have an adverse impact on our profitability.

In addition, the dairy industry continues to experience periodic imbalances between supply and demand for organic milk. Industry regulation and the costs of organic farming compared to costs of conventional farming can impact the supply of organic milk in the market. Oversupply levels of organic milk can increase competitive pressure on our products and pricing, while supply shortages can cause higher input costs and reduce our ability to deliver product to our customers. Cost increases in raw materials and other inputs could cause our profits to decrease significantly compared to prior periods, as we may be unable to increase our prices to offset the increased cost of these raw materials and other inputs. If we are unable to obtain raw materials and other inputs for our products or offset any increased costs for such raw materials and inputs, our business could be negatively affected.

Reduced availability of raw materials and other inputs, as well as increased costs for them, could adversely affect us.

Our business depends heavily on raw materials and other inputs in addition to conventional and organic raw milk, such as sweeteners, diesel fuel, packaging material, resin, and other commodities. Our raw materials are generally sourced from third-party suppliers, and we are not assured of continued supply, pricing, or exclusive access to raw materials from any of these suppliers. In 2023, costs to us increased primarily due to inflationary price increases of other ingredients, packaging materials, and freight. However, for market conditions or competitive reasons, our pricing actions may also lag input cost changes, or we may not be able to pass along the full effect of increases in raw materials and other input costs as we incur them.

The organic ingredients we use in some of our products are less plentiful and available from a fewer number of suppliers than their conventional counterparts. Competition with other manufacturers in the procurement of organic product ingredients may increase in the future if consumer demand for organic products increases.

Our business is subject to various food, environmental, and health and safety laws and regulations, which may increase our compliance costs, subject us to liabilities, or otherwise adversely affect our business.

Our business operations are subject to numerous requirements in the United States relating to food safety, production, and marketing, as well as the protection of the environment, and health and safety matters. The food production and marketing industry is subject to a variety of federal, state, local, and foreign laws and regulations, including food safety requirements related to the ingredients, manufacture, processing, storage, marketing, advertising, labeling, and distribution of our products, as well as those related to worker health and workplace safety. Our activities, both in and outside of the United States, are subject to extensive regulation. We are regulated by, among other federal and state authorities, the FDA, USDA, the U.S. Federal Trade Commission ("FTC"), and the U.S. Departments of Commerce, and Labor, as well as by similar authorities in the foreign countries in which we do business. Environmental laws including the Clean Air Act, the Clean Water Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, and the National Organic Standards of the U.S. Department of Agriculture, as well as similar state and local statutes and regulations in the United States and in each of the foreign countries in which we do business apply to our business operations as well. These laws and regulations govern, among other things, air emissions and the discharge of wastewater and other pollutants, the use of refrigerants, the handling and disposal of hazardous materials, and the cleanup of contamination in the environment. In addition, the marketing and advertising of our products could make us the target of claims relating to alleged false or deceptive advertising under federal, state, and foreign laws and regulations, and we may be subject to initiatives that limit or prohibit the marketing and advertising of our products to children.

We are also subject to federal laws and regulations relating to our organic products and production. For example, as required by the National Organic Program ("NOP"), we rely on third parties to certify certain of our products and production locations as organic. Regulations and formal and informal positions taken by the NOP pursuant to the Organic Foods Production Act of 1990, which created the NOP, are subject to continued review and scrutiny.

Changes in these laws or regulations or the introduction of new laws or regulations could increase our compliance costs, increase other costs of doing business for us, our customers, or our suppliers, or restrict our actions, which could adversely affect our results of operations. In some cases, new laws and regulations or other federal and state regulatory initiatives could interrupt distribution of our products or force changes in our production processes and our products. Governmental regulations also affect taxes and levies, healthcare costs, energy usage, immigration, and other labor issues, all of which may have a direct or indirect effect on our business or those of our customers or suppliers. These costs could negatively affect our results of operations and financial condition. Further, if we are found to be in violation of applicable laws and regulations in these areas, we could be subject to civil remedies, including third-party claims for property damage or personal injury, fines, injunctions, recalls, cleanup costs, and other civil sanctions, as well as potential criminal sanctions, any of which could have a material adverse effect on our business.

General economic or geopolitical conditions, including inflationary conditions, Russia's invasion of Ukraine, the Israel Gaza conflict, and the impact of pandemics such as COVID-19, may disrupt our business, including, among other things, consumption patterns, supply chain, and production processes, each of which could materially and adversely affect our business, financial condition and results of operations.

The United States and other key international economies have experienced significant economic and market downturns in the past, and are likely to experience additional cyclical downturns from time to time in which economic activity is impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, inflation, bankruptcies and overall uncertainty with respect to the economy. These economic conditions can arise suddenly and the full impact of such conditions can be difficult to predict, such as the future expectations in this inflationary environment. In addition, geopolitical and domestic political developments, such as existing and potential trade wars and other events beyond our control, such as Russia's invasion of Ukraine, can increase levels of political and economic unpredictability globally and increase the volatility of global financial markets. The actual or perceived effects of a disease outbreak, epidemic, pandemic or similar widespread public health concern, such as COVID-19, could also materially and adversely affect the Company's business, financial condition and results of operations.

Adverse and uncertain economic conditions, such as those caused by inflation or the COVID-19 pandemic, may impact distributor, retailer and consumer demand for our products. In addition, our ability to manage normal commercial relationships with our suppliers, distributors, retailers, consumers and creditors may suffer. Consumers may shift purchases to lower-priced or other perceived value offerings during economic downturns. Distributors and retailers may become more conservative in response to these conditions and seek to reduce their inventories. Our results of operations depend upon, among other things, our ability to maintain and increase sales volume with existing distributors and retailer customers, our ability to attract new consumers, the financial condition of our consumers, and our ability to provide products that appeal to consumers at attractive prices. Prolonged unfavorable economic conditions may have an adverse effect on the Company's sales, which could materially and adversely affect its business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

Risk Management and Strategy

Our cybersecurity program is designed to assess, identify, and manage material risks from cybersecurity threats, and protect and preserve the confidentiality, integrity, and continued availability of all information owned by, or in the care of, the Company. Cybersecurity risks are incorporated into the Company's broader risk management process to evaluate and address cybersecurity risks in alignment with our business objectives and operational needs. As part of the cybersecurity program, we utilize a combination of internal technology and a third-party managed security service provider and their platform to monitor, evaluate and respond to cyber activity. We monitor and assess the information gathered by our security tools and services to identify gaps, exposures, or weaknesses in our overall security approach, and make the necessary changes to address such findings.

Impact of Cybersecurity Risks and Threats

We are not aware of having experienced any risks from cybersecurity threats or incidents through the date of this Report that have materially affected the Company, its business strategy, results of operation or financial condition or are reasonably likely to have such an effect over the long term. This does not guarantee that future incidents or threats will not have a material impact or that we are not currently the subject of an undetected incident or threat that may have such an impact.

Additional information on cybersecurity risks we face is discussed in Part I, Item A – Risk Factors, which should be read in conjunction with the foregoing information.

Governance

Board of Directors

Our Board of Directors oversees our risk management process, and cybersecurity risks are monitored as a part of the broader program. Our Board has delegated the primary responsibility to oversee risks from cybersecurity threats to the Audit and Corporate Governance Committee. The Chief Financial Officer presents updates to the Audit and Corporate Governance Committee and the full Board of Directors, on, among other things, the Company's cyber risks and threats, the status of projects to strengthen the Company's information security systems, and the emerging threat landscape.

Management

Our Chief Financial Officer is responsible for management oversight of our information security program and controls, which includes cybersecurity risk management. Our Director of IT ("Director") is responsible for the development, operation, and maintenance of our information security program and controls. The Director has over 18 years of experience in the information technology field, and cybersecurity knowledge and skills gained through relevant experiences. The Director and Chief Financial Officer regularly review potential risks and measures implemented by the Company to identify and mitigate cyber security risks.

ITEM 2. PROPERTIES

We operate the following facilities:

Location	Owned / Leased	Principal Use
Morton Grove, Illinois	Owned	Production facility, principal executive offices
Waukesha, Wisconsin	Owned	Production facility, warehousing and distribution, administrative offices
Niles, Illinois	Owned	Warehousing and distribution, administrative offices
Philadelphia, Pennsylvania	Owned	Production facility, warehousing and distribution, administrative offices

Lifeway believes that its facilities are adequate for its current needs and that suitable additional space will be available on commercially acceptable terms as required. We believe that we have adequate insurance coverage for all our properties.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is listed on the Nasdaq Global Market under the symbol "LWAY." Trading commenced on March 29, 1988. As of March 7, 2024, there were approximately 53 shareholders of record of our common stock.

Dividend Policy

Lifeway does not routinely declare and pay dividends. From time to time however our Board of Directors may declare and pay dividends depending on our operating cash flow, financial condition, capital requirements and such other factors as the Board of Directors may deem relevant.

There were no dividends declared or paid in fiscal 2023 or 2022.

Purchases of Equity Securities by the Issuer

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced program	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs ($ in thousands)
11/1/2022 to 11/30/2022	850,340(a)	$ 4.70	–	$ –
Fiscal Year 2022	**850,340**	$ 4.70	–	$ –
1/1/2023 to 12/31/2023	–	$ –	–	$ –
Fiscal Year 2023	–	$ –	–	$ –

(a) On November 7, 2022, the Company entered into a Stock Purchase Agreement with Ludmila Smolyansky ("Ms. Smolyansky"), to purchase 850,340 shares of Lifeway common stock from Ms. Smolyansky in a privately negotiated share repurchase (the "Share Repurchase"). The Share Repurchase closed on November 30, 2022.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations as of and for the years ended December 31, 2023 and 2022 should be read in conjunction with the audited consolidated financial statements and the notes to those statements that are included elsewhere in this Annual Report on Form 10-K. In addition to historical information, the following discussion contains certain forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to our future plans, objectives, expectations and intentions. These statements may be identified by the use of words such as "may," "could," "believe," "future," "depend," "expect," "will," "result," "can," "remain," "assurance," "subject to," "require," "limit," "impose," "guarantee," "restrict," "continue," "become," "predict," "likely," "opportunities," "effect," "change," and "estimate," 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 bounds 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 in Part I, Item 1A. 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.

Recent Developments

Current Macroeconomic Environment and Inflation Impact

During 2022, we experienced inflationary and cost pressures due to volatility and disruption in the global economy which have increased our production and distribution costs. During 2023, we experienced some moderation of inflationary pressures and have experienced pricing declines in certain of our input costs, such as conventional milk. In response to these persistent inflationary and cost pressures, we instituted price increases in 2022 on many of our products. These inflation-justified price increases mitigated a portion of our increased costs.

We have not experienced significant supply chain disruptions or labor supply shortages and have continued to satisfy customer and consumer demand for our products. Management continues to proactively manage the supply chain of materials used to produce and transport our products to customers. This proactive planning has allowed the Company to avoid disruption to its manufacturing facilities, transportation, and sales, and to meet the increased demand. The Company has maintained production at all locations and does not anticipate manufacturing or staffing disruptions in the near term.

Results of Operations

Comparison of Year Ended December 31, 2023 to Year Ended December 31, 2022 (in 000's)

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

	Year Ended December 31,			
	2023		2022	
	$	%	$	%
Net sales	160,123	100.0%	141,568	100.0%
Cost of goods sold	115,060	71.9%	112,350	79.4%
Depreciation expense	2,622	1.6%	2,432	1.7%
Total cost of goods sold	117,682	73.5%	114,782	81.1%
Gross profit	42,441	26.5%	26,786	18.9%
Selling expenses	11,776	7.4%	11,304	8.0%
General & administrative expenses	13,130	8.2%	12,593	8.9%
Amortization expense	540	0.3%	540	0.4%
Total operating expenses	**25,446**	**15.9%**	**24,437**	**17.2%**
Income from operations	**16,995**	**10.6%**	**2,349**	**1.7%**
Other income (expense):				
Interest expense	(384)	(0.2%)	(267)	(0.2%)
Gain (loss) on sale of property and equipment	34	0.0%	(241)	(0.2%)
Other income (expense)	4	0.0%	–	0.0%
Total other income (expense)	(346)	(0.2%)	(508)	(0.4%)
Income before provision for income taxes	**16,649**	**10.4%**	**1,841**	**1.3%**
Provision for income taxes	5,282	3.3%	917	0.6%
Net income	**11,367**	**7.1%**	**924**	**0.7%**

Net Sales

Net sales were $160,123 for the year ended December 31, 2023, an increase of $18,555 or 13.1% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir, and to a lesser extent the impact of price increases implemented during the fourth quarter of 2022.

Gross Profit

Gross profit as a percentage of net sales increased to 26.5% during the year ended December 31, 2023 from 18.9% during the same period in 2022. The increase versus the prior year was primarily due to the higher volumes of our branded products and the favorable impact of milk pricing, and to a lesser extent the price increases implemented during the fourth quarter of 2022 and decreased transportation costs.

Selling Expenses

Selling expenses increased by $472 to $11,776 during the year ended December 31, 2023 from $11,304 during the same period in 2022. The increase is primarily due to increased compensation expense, partially offset by the reduction in royalty expense resulting from the termination of the endorsement agreement in September 2022.

General and Administrative Expenses

General and administrative expenses increased $537 to $13,130 during the year ended December 31, 2023 from $12,593 during the same period in 2022. The increase is primarily a result of increased incentive compensation expense, partially offset by the termination of the endorsement agreement in September 2022 and reduced professional fees.

Provision for Income Taxes

The provision for income taxes includes federal, state and local income taxes. The provision for income taxes was $5,282 and $917 during the year ended December 31, 2023 and 2022, respectively.

The effective income tax rate was 31.7% in 2023 compared to 49.1% in 2022. The statutory Federal and state tax rates remained consistent from 2022 to 2023. The Company consistently reflects non-deductible items such as non-deductible officer compensation expense, non-deductible compensation expense related to equity incentive awards and separate state tax rates from year to year. Although similar items were reflected in 2023, the percentage effect is different due to the difference in pre-tax income in 2023 compared to 2022.

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

Section 162(m) of the Internal Revenue Code (the "Code") limits the deductibility of compensation paid to certain of our executives to the extent their total compensation exceeds $1 million in any taxable year.

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

Liquidity and Capital Resources

Management assesses the Company’s liquidity in terms of its ability to generate cash to fund its operating, investing, and financing activities. The Company remains in a strong financial position, and while it has been impacted by the macroeconomic challenges with commodity inflation and other input cost increases, the Company believes that its cash flow from operations, revolving credit and term loan facility, and cash and cash equivalents will continue to provide sufficient liquidity for its working capital needs, capital resource requirements, and growth initiatives and to ensure the continuation of the Company as a going concern.

If additional borrowings are needed, $5,000 was available under the Revolving Credit Facility as of December 31, 2023 (see Note 7, Debt). We are in compliance with the terms of the Credit Agreement and expect to meet foreseeable financial requirements. The success of our business and financing strategies will continue to provide us with the financial flexibility to take advantage of various opportunities as they arise. To date, we have been successful in generating cash and obtaining financing as needed. However, if a serious economic or credit market crisis ensues, it could have a negative effect on our liquidity, results of operations and financial condition.

The Company’s most significant ongoing short-term cash requirements relate primarily to funding operations (including expenditures for raw materials, labor, manufacturing and distribution, trade and promotions, advertising and marketing, and income tax liabilities) as well as expenditures for property, plant, and equipment.

Long-term cash requirements primarily relate to funding long-term debt repayments (see Note 7, Debt) and deferred income taxes (see Note 10, Income Taxes).

Cash Flow

The following table is derived from our Consolidated Statement of Cash Flows:

	Year Ended December 31,			
	2023		2022	
Net Cash Flows Provided By (Used In):				
Operating activities	$	16,941	$	3,987
Investing activities	$	(4,410)	$	(4,029)
Financing activities	$	(3,777)	$	(4,747)

Operating Activities

Net cash provided by operating activities was $16,941 in 2023 compared to $3,987 in 2022. The increase was primarily due to higher cash earnings driven by increased product volumes and declines in certain input costs, and the change in working capital.

Investing Activities

Net cash used in investing activities was $4,410 in 2023 compared to $4,029 in 2022. The increase in cash used reflects our planned capital spending increase during 2023 compared to 2022. Our capital spending is focused in three core areas: growth, cost reduction, and facility improvements. Growth capital spending supports new product innovation and enhancements. Cost reduction and facility improvements support manufacturing efficiency, safety, and productivity.

Financing Activities

Net cash used in financing activities was $3,777 in 2023 compared to $4,747 in 2022. The Company paid the outstanding line of credit balance of $2,777 in full on October 6, 2023. There were no amounts outstanding under the line of credit after October 6, 2023, through December 31, 2023.

On November 7, 2022, the Company entered into a Stock Purchase Agreement with Ludmila Smolyansky ("Ms. Smolyansky"), to purchase 850,340 shares of Lifeway common stock from Ms. Smolyansky, Board of Director member. The shares were repurchased during the fourth quarter of 2022.

Pursuant to the Stock Purchase Agreement, (i) Ms. Smolyansky sold the shares at a purchase price of $4.70 per share, which represents a twenty percent (20.0%) discount to the average closing price of the common stock on Nasdaq over the five (5) trading day period ended on the trading day immediately preceding the date of the Stock Purchase Agreement and (ii) Ms. Smolyansky used a portion of the proceeds to satisfy in full certain obligations of Ms. Smolyansky, which are secured by previously disclosed pledges of common stock, causing all such pledges to be released. The purchased shares are held in treasury by the Company.

Debt Obligations

The Company is party to an Amended and Restated Loan and Security Agreement (as amended and modified from time to time, the "Credit Agreement") with its existing lender and certain of its subsidiaries. The Credit Agreement provides for, among other things, a $5 million term loan to be repaid in quarterly installments of principal and interest over a term of five years, a revolving line of credit up to a maximum of $5 million (the "Revolving Credit Facility") and an incremental facility not to exceed $5 million. The termination date of the term loan is August 18, 2026, unless earlier terminated. The termination date of the revolving credit facility is June 30, 2025, unless earlier terminated.

As of December 31, 2023, the Company had $0 outstanding under the Revolving Credit Facility and $2,733 outstanding under the note payable, net of $17 of unamortized deferred financing fees. The Company had $5,000 available for future borrowings under the Revolving Credit Facility as of December 31, 2023.

All outstanding amounts under the loans bear interest at the Secured Overnight Financing Rate ("SOFR"), plus 2.07%. The Company's interest rate on debt outstanding under the note payable as of December 31, 2023 was 6.29%. Interest is payable monthly in arrears. Lifeway is also required to pay a quarterly unused line fee of 0.20% on the Revolving Credit Facility, and in conjunction with the issuance of any letters of credit, a letter of credit fee of 0.20%.

The Company is in compliance with all applicable financial debt covenants as of December 31, 2023. See Note 7 to our Consolidated Financial Statements for additional information regarding our indebtedness and related agreements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements as defined in Item 303(a)(4) of Regulation S-K.

Critical Accounting Estimates

Critical accounting estimates are defined as those most important to the portrayal of a company's financial condition and results, and require the most difficult, subjective, or complex judgments. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP with no need for the application of our judgement. In certain circumstances, the preparation of our Consolidated Financial Statements in conformity with U.S. GAAP requires us to use our judgment to make certain estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of net sales and expenses during the reporting period. We believe in the quality and reasonableness of our critical accounting estimates; however, materially different amounts might be reported under different conditions or using assumptions, estimates or making judgments different from those that we have applied. Management has discussed the development and selection of these critical accounting policies, as well as our significant accounting policies (see Note 2 to the Consolidated Financial Statements), with the Audit and Corporate Governance Committee of our Board of Directors. We have identified the policies described below as our critical accounting policies that require us to make subjective or complex judgments.

Goodwill impairment

Goodwill totaled $11,704 as of December 31, 2023. Goodwill represents the excess purchase price over the fair value of the net tangible and other identifiable intangible assets acquired. Goodwill is not amortized.

The Company has one reporting unit within its single reportable segment. We review and evaluate our goodwill for potential impairment at a minimum annually, as of December 31, or more frequently if circumstances indicate that impairment is possible. We completed our annual goodwill impairment analysis as of December 31, 2023. Our assessment did not result in an impairment.

In testing goodwill for impairment, the Company has the option to perform a qualitative test (also known as "Step 0") or a quantitative test ("Step 1"). Under the Step 0 test, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. Qualitative factors may include, but are not limited to, economic conditions, industry and market considerations, cost factors, overall financial performance of the reporting unit and other entity and reporting unit specific events. If after assessing these qualitative factors, the Company determines it is "more-likely-than-not" that the fair value of the reporting unit is less than the carrying value, then performing the Step 1 quantitative test is necessary.

Step 1 of the quantitative test requires comparison of the fair value of the Company's one reporting unit to the carrying value. If the carrying value of the reporting unit is less than the fair value, no impairment exists. Otherwise, the Company would recognize an impairment charge for the amount by which the carrying amount of the reporting unit exceeds its fair value up to the amount of goodwill allocated to the reporting unit.

Under a Step 1 quantitative test, we estimate the fair value of our one reporting unit using a combination of the fair values derived from both the income approach and the market approach. Under the income approach, the Company uses a discounted cash flow methodology which requires management to make significant estimates and assumptions related to forecasted revenues, gross profit margins, operating income margins, working capital cash flow, perpetual growth rates, and long-term discount rates, among others. The discount rate used to determine the present value of future cash flows is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows. For the market approach, the Company uses the guideline public company method. The market approach estimates fair value based on market multiples of revenue and earnings derived from comparable publicly traded companies with similar operating and investment characteristics. The Company also reconciles the fair value of its reporting unit to its current market capitalization, allowing for a reasonable control premium.

Sales discounts & allowance

We offer various trade promotions and sales incentive programs to customers and consumers. From time to time, we grant certain sales discounts to customers which are classified as a reduction in sales. The measurement and recognition of discounts and allowances involve the use of judgment and our estimates are made based on historical experience and specific customer program accruals. Differences between estimated and actual discount and allowance costs are normally not material and are recognized in earnings in the period such differences are determined. The process for analyzing trade promotion programs could impact our results of operations and trade spending accruals depending on how actual results of the programs compare to original estimates. As of December 31, 2023, we had $1,270 of accrued discounts and allowances.

Share-based compensation

Certain employees and non-employee directors receive various forms of share-based payment awards, and we recognize compensation expense for these awards based on their grant date fair values. The grant date fair value of Restricted Stock Units ("RSUs") and Performance Share Unit ("PSUs") awards is equal to the Company's closing stock price on the grant date. The Company granted RSU and PSU awards during 2023 to employees. The PSU awards are contingent upon the achievement of strategic milestones during a three-year measurement period. The expense recognition of PSU awards therefore requires management to make judgements and estimates at the end of each reporting period as to the cumulative three-year milestone achievements. Changes in managements estimate of the three-year cumulative milestone achievements are recognized as change in management estimate in a subsequent period. We do not estimate forfeitures in measuring the grant date fair value of RSUs and PSUs, but rather account for forfeitures as they occur. Forfeitures have historically been immaterial. See Note 11 to our consolidated financial statements for further detail.

Income taxes

We pay income taxes based on tax statutes, regulations, and case law of the various jurisdictions in which we operate. At any given time, multiple tax years are subject to audit by the various taxing authorities. Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. The assumptions about future taxable income require the use of significant judgment and are consistent with the plans and estimates we are using to manage our underlying businesses.

We recognize an income tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The income tax benefit recognized in our financial statements from such a position is measured based on the largest estimated benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. These judgments and estimates made at a point in time may change based on the outcome of tax audits and changes to, or further interpretations of, regulations. If such changes take place, there is a risk that our tax rate may increase or decrease in any period, which would impact our earnings. Future business results may affect deferred tax liabilities or the valuation of deferred tax assets over time.

Recent Accounting Pronouncements.

See Note 2, Summary of Significant Accounting Policies, in the Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for information regarding recent accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Lifeway Foods, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Lifeway Foods, Inc. (an Illinois corporation) and subsidiaries (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matters

The critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

GRANT THORNTON LLP

We have served as the Company's auditor since 2022.

Chicago, Illinois
March 20, 2024

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2023 and 2022
(In thousands)

	December 31, 2023	December 31, 2022
Current assets		
Cash and cash equivalents	$ 13,198	$ 4,444
Accounts receivable, net of allowance for credit losses and discounts & allowances of $1,270 and $1,820 at December 31, 2023 and 2022, respectively	13,875	11,414
Inventories, net	9,104	9,631
Prepaid expenses and other current assets	2,019	1,445
Refundable income taxes	–	44
Total current assets	**38,196**	**26,978**
Property, plant and equipment, net	22,764	20,905
Operating lease right-of use asset	192	174
Goodwill	11,704	11,704
Intangible assets, net	6,898	7,438
Other assets	1,900	1,800
Total assets	**$ 81,654**	**$ 68,999**
Current liabilities		
Current portion of note payable	$ 1,250	$ 1,250
Accounts payable	9,976	7,979
Accrued expenses	4,916	3,813
Accrued income taxes	474	–
Total current liabilities	**16,616**	**13,042**
Line of credit	–	**2,777**
Note payable	**1,483**	**2,477**
Operating lease liabilities	**118**	**104**
Deferred income taxes, net	**3,001**	**3,029**
Total liabilities	**21,218**	**21,429**
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock, no par value; 2,500 shares authorized; none issued	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 14,691 and 14,645 shares outstanding at 2023 and 2022	6,509	6,509
Paid-in capital	4,825	3,624
Treasury stock, at cost	(16,695)	(16,993)
Retained earnings	65,797	54,430
Total stockholders' equity	**60,436**	**47,570**
Total liabilities and stockholders' equity	**$ 81,654**	**$ 68,999**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Years Ended December 31, 2023 and 2022
(In thousands, except per share data)

	2023	2022
Net sales	**$ 160,123**	**$ 141,568**
Cost of goods sold	115,060	112,350
Depreciation expense	2,622	2,432
Total cost of goods sold	117,682	114,782
Gross profit	**42,441**	**26,786**
Selling expenses	11,776	11,304
General and administrative	13,130	12,593
Amortization expense	540	540
Total operating expenses	**25,446**	**24,437**
Income from operations	**16,995**	**2,349**
Other income (expense):		
Interest expense	(384)	(267)
Gain (loss) on sale of property and equipment	34	(241)
Other income (expense)	4	–
Total other income (expense)	(346)	(508)
Income before provision for income taxes	**16,649**	**1,841**
Provision for income taxes	5,282	917
Net income	**$ 11,367**	**$ 924**
Net earnings per common share:		
Basic	$ 0.77	$ 0.06
Diluted	$ 0.75	$ 0.06
Weighted average common shares outstanding:		
Basic	14,667	15,396
Diluted	15,103	15,718

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2023 and 2022
(In thousands)

	Common Stock						
	Issued		In treasury				
	Shares	$	Shares	$	Paid-In Capital	Retained Earnings	Total Equity
Balance, January 1, 2022	**17,274**	**$ 6,509**	**(1,839)**	**$ (13,436)**	**$ 2,552**	**$ 53,506**	**$ 49,131**
Treasury stock purchased	–	–	(850)	(3,997)	–	–	(3,997)
Issuance of common stock in connection with stock-based compensation	–	–	60	440	(558)	–	(118)
Stock-based compensation	–	–	–	–	1,630	–	1,630
Net income	–	–	–	–	–	924	924
Balance, December 31, 2022	**17,274**	**$ 6,509**	**(2,629)**	**$ (16,993)**	**$ 3,624**	**$ 54,430**	**$ 47,570**
Issuance of common stock in connection with stock-based compensation	–	–	46	298	(364)	–	(66)
Stock-based compensation	–	–	–	–	1,565	–	1,565
Net Income	–	–	–	–	–	11,367	11,367
Balance, December 31, 2023	**17,274**	**$ 6,509**	**(2,583)**	**$ (16,695)**	**$ 4,825**	**$ 65,797**	**$ 60,436**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Cash flows from operating activities:		
Net income	**$ 11,367**	**$ 924**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	3,162	2,972
Non-cash interest expense	6	6
Bad debt expense	2	–
Deferred revenue	–	(28)
Stock-based compensation	1,497	1,109
Deferred income taxes	(28)	(172)
(Gain) loss on sale of property and equipment	(34)	241
(Increase) decrease in operating assets:		
Accounts receivable	(2,463)	(1,483)
Inventories	527	(1,345)
Prepaid expenses and other current assets	(574)	(191)
Refundable income taxes	44	300
Increase (decrease) in operating liabilities:		
Accounts payable	1,859	1,945
Accrued expenses	1,102	434
Accrued income taxes	474	(725)
Net cash provided by operating activities	**16,941**	**3,987**
Cash flows from investing activities:		
Purchases of property and equipment	(4,351)	(3,449)
Proceeds from sale of equipment	41	–
Acquisition, net of cash acquired	–	(580)
Purchase of investments	(100)	–
Net cash used in investing activities	**(4,410)**	**(4,029)**
Cash flows from financing activities:		
Repayment of line of credit	(2,777)	–
Repayment of note payable	(1,000)	(750)
Purchase of treasury stock	–	(3,997)
Net cash used in financing activities	**(3,777)**	**(4,747)**
Net increase (decrease) in cash and cash equivalents	**8,754**	**(4,789)**
Cash and cash equivalents at the beginning of the period	4,444	9,233
Cash and cash equivalents at the end of the period	**$ 13,198**	**$ 4,444**
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	$ 4,792	$ 1,121
Cash paid for interest	$ 415	$ 247
Non-cash investing activities		
Accrued purchase of property and equipment	$ 137	$ 424
Right-of-use assets obtained in exchange for lease obligations	$ 94	$ 83

See accompanying notes to consolidated financial statements

Note 1 – Basis of presentation

The consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include all of the assets, liabilities and results of operations of Lifeway Foods, Inc. and its wholly owned subsidiaries (collectively "Lifeway" or the "Company"). All inter-company balances and transactions have been eliminated in the consolidated financial statements.

Note 2 – Summary of significant accounting policies

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to use judgement 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 the reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made in preparing the consolidated financial statements include the reserve for promotional allowances, the valuation of goodwill and intangible assets, stock-based and incentive compensation, and deferred income taxes.

Cash and cash equivalents

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

Lifeway from time to time may have bank deposits in excess of insurance limits of the Federal Deposit Insurance Corporation. The Company places its cash and cash equivalents with high credit quality financial institutions. Lifeway has not experienced any losses in such accounts and believes the financial risks associated with these financial instruments are minimal.

Revenue Recognition

Lifeway sells food and beverage products across select product categories to customers predominantly within the United States (see Note 13 – Disaggregation of Revenue, Significant Customers, and Geographic Information). The Company also sells bulk cream, a byproduct of its fluid milk manufacturing process. In accordance with ASC 606, Revenue from Contracts with Customers, Lifeway recognizes revenue when control over the products transfers to its customers, which generally occurs upon delivery to its customers or their common carriers. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services, using the five-step method required by ASC 606.

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

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

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

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

Key sales terms, such as pricing and quantities ordered, are established on a frequent basis such that most customer arrangements and related incentives have a one year or shorter duration. As such, the Company does not capitalize contract inception costs and it capitalizes product fulfillment costs in accordance with U.S. GAAP and its inventory policies. It generally does not receive noncash consideration for the sale of goods, nor does it grant payment financing terms greater than one year.

Accounts Receivable

Lifeway provides credit terms to customers in-line with industry standards and maintains allowances for potential credit losses based on historical collection experiences and the current economic condition of specific customers. All account receivables have an original term of less than one year. Customer balances are written off after all collection efforts are exhausted. Estimated product returns, which have not been material, are deducted from sales at the time of revenue recognition. The Company does not charge interest on past due accounts receivable.

Inventories

Inventories are stated at the lower of cost or net realizable value, valued on a first in, first out basis ("FIFO"). The costs of finished goods inventories include raw materials, direct labor, and overhead costs. Inventories are stated net of reserves for excess or obsolete inventory.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets as follows:

Asset	Useful Life
Buildings and improvements	10 – 39 years
Machinery and equipment	5 – 12 years
Office equipment	3 – 7 years
Vehicles	5 years
Leasehold improvements	Shorter of expected useful life or lease term

The Company performs impairment tests when circumstances indicate that the carrying value of an asset may not be recoverable. Expenditures for repairs and maintenance, which do not improve or extend the life of the assets, are expensed as incurred.

Goodwill

Goodwill represents the excess purchase price over the fair value of the net tangible and other identifiable intangible assets acquired. Goodwill is not amortized, but it is subject to an annual assessment for impairment, which the Company performs on its one reporting unit during the fourth quarter (as of December 31), or more frequently if events occur or circumstances change such that it is more likely than not that an impairment may exist.

In testing goodwill for impairment, the Company has the option to perform a qualitative test (also known as “Step 0”) or a quantitative test (“Step 1”). Under the Step 0 test, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. Qualitative factors may include, but are not limited to, economic conditions, industry and market considerations, cost factors, overall financial performance of the reporting unit and other entity and reporting unit specific events. If after assessing these qualitative factors, the Company determines it is “more-likely-than-not” that the fair value of the reporting unit is less than the carrying value, then performing the Step 1 quantitative test is necessary.

Step 1 of the quantitative test requires comparison of the fair value of the Company’s one reporting unit to the carrying value. If the carrying value of the reporting unit is less than the fair value, no impairment exists. Otherwise, the Company would recognize an impairment charge for the amount by which the carrying amount of the reporting unit exceeds its fair value up to the amount of goodwill allocated to the reporting unit.

Under a Step 1 quantitative test, we estimate the fair value of our one reporting unit using a combination of the fair values derived from both the income approach and the market approach. Under the income approach, the Company uses a discounted cash flow methodology which requires management to make significant estimates and assumptions related to forecasted revenues, gross profit margins, operating income margins, working capital cash flow, perpetual growth rates, and long-term discount rates, among others. The discount rate used to determine the present value of future cash flows is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business’s ability to execute on the projected cash flows. For the market approach, the Company uses the guideline public company method. The market approach estimates fair value based on market multiples of revenue and earnings derived from comparable publicly traded companies with similar operating and investment characteristics. The Company also reconciles the fair value of its reporting unit to its current market capitalization, allowing for a reasonable control premium.

Intangible Assets

Intangible assets acquired in a business combination are recorded at their estimated fair values at the date of acquisition. Identifiable intangible assets with finite lives are amortized over their estimated useful lives as follows:

Asset	Useful Life
Recipes	4 years
Brand names	15 years
Formula	10 years
Customer lists	5-10 years
Customer relationships	15 years

All amortization expense related to intangible assets is recorded in Amortization expense in the consolidated statements of operations.

Amortizable intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Lifeway conducts more frequent impairment assessments if certain conditions exist, such as a change in the competitive landscape, any internal decisions to pursue new or different strategies, a loss of a significant customer, or a significant change in the marketplace including changes in the prices paid for its products or changes in the size of the market for its products. If an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is generally based on discounted future cash flows. If the estimated remaining useful life of an intangible asset is changed, the remaining carrying amount of the intangible asset is amortized prospectively over the revised remaining useful life.

Fair value measurements

Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management’s estimate of assumptions that market participants would use in pricing the asset or liability.

Lifeway’s financial assets and liabilities that are not carried at fair value on a recurring basis include cash and cash equivalents, accounts receivable, other receivables, accounts payable, accrued expenses and revolving line of credit for which carrying value approximates fair value.

The Company records its investments in equity securities without a readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. As of December 31, 2023, and 2022, the Company has one equity investment without a readily determinable fair value which is recorded at $1,800 in other assets on the consolidated balance sheet. The investment cost of $1,800 for this equity investment includes a cumulative unrealized gain of $1,731 resulting from an observable price change in 2019. There were no upward or downward observable price change adjustments to the equity investment cost during 2023 or 2022.

Income taxes

The Provision for income taxes includes federal, state, local and foreign income taxes currently payable, and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using enacted tax rates expected to apply to taxable income in the year in which the deferred tax assets or liabilities are expected to be realized or settled. The principal sources of temporary differences are different depreciation and amortization methods for financial statement and tax purposes, incentive compensation, unrealized gain, capitalization of indirect inventory costs for tax purposes, reserves for excess and obsolete inventory and the allowance for doubtful accounts. Valuation allowances are recorded to reduce deferred tax assets when it is more likely not that a tax benefit will not be realized. Deferred income tax expense or benefit is based on the changes in the asset or liability from period to period.

Lifeway analyzes filing positions in all the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company recognizes the income tax benefit from an uncertain tax position when it is more likely than not that, based on technical merits, the position will be sustained upon examination, including resolutions of any related appeals or litigation processes. It applies a more likely than not threshold to the recognition and derecognition of uncertain tax positions. Accordingly, Lifeway recognizes the amount of tax benefit that has a greater than 50% likelihood of being ultimately realized upon settlement. Future changes in judgment related to the expected ultimate resolution of uncertain tax positions will affect earnings in the period of such change. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. The total amount of unrecognized tax benefits can change due to audit settlements, tax examination activities, statute expirations and the recognition and measurement criteria under accounting for uncertainty in income taxes. Lifeway recognizes penalties and interest related to unrecognized tax benefits in the provision (benefit) for income taxes in the consolidated statements of operations.

Share-based compensation

Share-based compensation expense is recognized for equity awards over the vesting period based on their grant date fair value. The fair value of restricted stock and performance share awards are equal to the closing price of Lifeway’s stock on the date of grant. The Company does not estimate forfeitures in measuring the grant date fair value, but rather account for forfeitures as they occur.

The fair value of stock options are measured 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. The Company utilized this simplified method as it did not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term.

The Company issues share-based equity awards from treasury shares.

Treasury stock

Treasury stock is recorded using the cost method.

Advertising costs

Advertising costs are expensed as incurred and reported in Selling expense in the Company’s consolidated statements of operations. Total advertising expense was $3,733 and $3,353 for the years ended December 31, 2023 and 2022, respectively.

Earnings per common share

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares issued and outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares issued and outstanding and the effect of all dilutive common stock equivalents related to the Company's outstanding stock-based compensation awards outstanding during the reporting period.

Segments

The Company is managed as a single reportable segment. The Chief Executive Officer, who is the Company's Chief Operating Decision Maker ("CODM"), reviews financial information on an aggregate basis for purposes of allocating resources and assessing financial performance, as well as for making strategic operational decisions and managing the organization. Substantially all of Lifeway's consolidated revenues relate to the sale of cultured dairy products that it produces using the same processes and materials and are sold to consumers through a common network of distributors and retailers in the United States.

Recent accounting pronouncements

Issued but not yet effective

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-07: Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The new guidance requires entities to report incremental information about significant segment expenses included in a segment's profit or loss measure as well as the name and title of the chief operating decision maker. The guidance also requires interim disclosures related to reportable segment profit or loss and assets that had previously only been disclosed annually. The new standard is effective for our annual period ending December 31, 2024 and our interim periods during the fiscal year ending December 31, 2025. The guidance does not affect recognition or measurement in the Company's consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09: Income Taxes (Topic 740): Improvements to Income Tax Disclosures that requires entities to disclose additional information about federal, state, and foreign income taxes primarily related to the income tax rate reconciliation and income taxes paid. The new standard also eliminates certain existing disclosure requirements related to uncertain tax positions and unrecognized deferred tax liabilities. The guidance is effective for our fiscal year ending December 31, 2024. The guidance does not affect recognition or measurement in the Company's consolidated financial statements.

Adopted

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The new guidance provides a single comprehensive accounting model on revenue recognition for contracts with customers and requires that the acquirer in a business combination recognize and measure contract assets and liabilities acquired in a business combination in accordance with Topic 606 (Revenue from Contracts with Customers). The amendments in this ASU are effective for fiscal years beginning after December 15, 2022. The Company adopted this standard during the first quarter of 2023. The adoption did not have a material impact on the Company's financial statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The new guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The guidance will be effective prospectively as of March 12, 2020 through December 31, 2022 and interim periods within those fiscal years. The ASU was effective upon issuance and allowed companies to adopt the amendments on a prospective basis through December 31, 2024. The Company adopted this standard during the first quarter of 2023. The adoption did not have a material impact on the Company's financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, in November 2018 issued an amendment, ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, and in November 2019 issued two amendments, ASU 2019-10, Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates, and ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments – Credit Losses. The series of new guidance amends the impairment model by requiring entities to use a forward-looking approach based on expected losses rather than incurred losses to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses. The guidance should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. The guidance is effective for annual periods beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. The Company adopted this standard during the first quarter of 2023. The adoption did not have a material impact on the Company's financial statements.

Note 3 – Inventories, net

	December 31,			
	2023		2022	
Ingredients	$	2,929	$	2,859
Packaging		3,014		3,233
Finished goods		3,161		3,539
Total inventories, net	$	9,104	$	9,631

Note 4 – Property, Plant and Equipment, net

	December 31,			
	2023		2022	
Land	$	1,565	$	1,565
Buildings and improvements		21,661		19,341
Machinery and equipment		33,573		32,786
Vehicles		705		640
Office equipment		1,072		979
Construction in process		2,154		1,180
		60,730		56,491
Less accumulated depreciation		(37,966)		(35,586)
Total property, plant and equipment, net	$	22,764	$	20,905

Note 5 – Goodwill and Intangible Assets

Goodwill

Goodwill consisted of the following:

	Total
Balance at December 31, 2022	
Goodwill	$ 12,948
Accumulated impairment losses	(1,244)
	$ 11,704
Balance at December 31, 2023	
Goodwill	$ 12,948
Accumulated impairment losses	(1,244)
	$ 11,704

The Company performed an annual Step 0 impairment assessment for its single reporting unit as of December 31, 2023, noting no impairment loss. The Company performed an annual Step 1 impairment assessment for its single reporting unit as of December 31, 2022, noting no impairment loss.

Approximately $1,664 of goodwill is deductible for income tax purposes.

Intangible Assets

The gross carrying amounts and accumulated amortization of intangible assets consisted of the following:

	December 31, 2023			December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Recipes	$ 44	$ (44)	$ –	$ 44	$ (44)	$ –
Customer lists and other customer related intangibles	4,529	(4,529)	–	4,529	(4,529)	–
Customer relationship	3,385	(1,372)	2,013	3,385	(1,212)	2,173
Brand names	7,948	(3,063)	4,885	7,948	(2,683)	5,265
Formula	438	(438)	–	438	(438)	–
Total intangible assets, net	$ 16,344	$ (9,446)	$ 6,898	$ 16,344	$ (8,906)	$ 7,438

Estimated amortization expense on intangible assets for the next five years is as follows:

Year	Amortization
2024	$ 540
2025	$ 540
2026	$ 540
2027	$ 540
2028	$ 540

The weighted-average remaining amortization expense period for the customer relationship and brand name intangible assets is 12.6 and 12.9 years, respectively, as of December 31, 2023. The weighted-average remaining amortization expense period for total intangible assets is 12.8 years as of December 31, 2023.

Note 6 – Accrued Expenses

Accrued expenses consisted of the following:

	December 31,	
	2023	2022
Payroll and incentive compensation	$ 3,853	$ 2,925
Real estate taxes	442	394
Accrued utilities	241	121
Current portion of operating lease liabilities	74	70
Other	306	303
Total accrued expenses	$ 4,916	$ 3,813

Note 7 – Debt

Note payable consisted of the following:

	December 31,	
	2023	2022
Term loan due August 18, 2026. Interest (6.29% at December 31, 2023) payable monthly.	$ 2,750	$ 3,750
Unamortized deferred financing costs	(17)	(23)
Total note payable	2,733	3,727
Less current portion	(1,250)	(1,250)
Total long-term portion	$ 1,483	$ 2,477

The scheduled maturities of the term loan, excluding deferred financing costs, at December 31, 2023 are as follows:

2024	$ 1,250
2025	1,000
2026	500
Total term loan	$ 2,750

Credit Agreement

The Company is party to an Amended and Restated Loan and Security Agreement (as amended and modified from time to time, the “Credit Agreement”) with its existing lender and certain of its subsidiaries. The Credit Agreement provides for, among other things, a $5 million term loan to be repaid in quarterly installments of principal and interest over a term of five years, a revolving line of credit up to a maximum of $5 million (the “Revolving Credit Facility”) and an incremental facility not to exceed $5 million. The termination date of the term loan is August 18, 2026, unless earlier terminated. The termination date of the revolving credit facility is June 30, 2025, unless earlier terminated.

All outstanding amounts under the Credit Agreement bear interest at the Secured Overnight Financing Rate (“SOFR”), plus 2.07%, payable monthly in arrears. Lifeway is also required to pay a quarterly unused revolving line of credit fee of 0.20% and, in conjunction with the issuance of any letters of credit, a letter of credit fee of 0.20%.

The Credit Agreement includes customary representations, warranties, and covenants, including financial covenants requiring the Company to maintain a fixed charge coverage ratio of no less than 1.25 to 1.00, and a minimum working capital financial covenant, as defined, of no less than $11.25 million, in each of the fiscal quarters ending through the expiration date. The Credit Agreement continues to provide for events of default, including failure to repay principal and interest when due and failure to perform or violation of the provisions or covenants of the agreement, as a result of which amounts due under the Credit Agreement may be accelerated. The loans and all other amounts due and owed under the Credit Agreement and related documents are secured by substantially all of the Company’s assets.

Lifeway was in compliance with the fixed charge coverage ratio and minimum working capital covenants at December 31, 2023.

Revolving Credit Facility

As of December 31, 2023, the Company had $0 outstanding under the Revolving Credit Facility. The Company had $5,000 available for future borrowings under the Revolving Credit Facility as of December 31, 2023.

Deferred Financing Costs

As of December 31, 2023, net unamortized deferred financing costs of $17 related to the term loan were included as a direct deduction from outstanding long-term debt.

Note 8 – Leases

The Company leases certain machinery and equipment with fixed base rent payments and variable costs based on usage. Remaining lease terms for these leases range from less than one year to six years. The Company includes lease extension options, if applicable and reasonably certain to be exercised, in the calculation of the right-of-use asset and lease liabilities. Lifeway includes only fixed payments for lease components in the measurement of the right-of-use asset and lease liability. Variable lease payments are those that vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time. There are no residual value guarantees. Lifeway does not currently have leases which meet the finance lease classification as defined under ASC 842.

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

Right-of-use assets and lease liabilities are measured and recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Lifeway has elected the practical expedient to combine lease and non-lease components into a single component for all of its leases. When the Company is unable to determine an implicit interest rate, it uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments for those leases. Lifeway includes options to extend or terminate the lease in the measurement of the right-of-use asset and lease liability when it is reasonably certain that it will exercise such options. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

The Company does not record leases with an initial term of 12 months or less on the balance sheet. Expense for these short-term leases is recorded on a straight-line basis over the lease term. Total lease expense was $138 and $229 (including short term leases) for the years ended December 31, 2023 and 2022, respectively.

Future maturities of lease liabilities were as follows:

Year	Operating Leases
2024	$ 89
2025	55
2026	31
2027	21
2028	17
Thereafter	10
Total lease payments	223
Less: Interest	(31)
Present value of lease liabilities	$ 192

The weighted-average remaining lease term for its operating leases was 3.6 years as of December 31, 2023. The weighted average discount rate of its operating leases was 9.85% as of December 31, 2023. Cash paid for amounts included in the measurement of lease liabilities was $94 and $151 for the year ended December 31, 2023 and 2022, respectively.

Note 9 – Commitments and Contingencies

Litigation

Lifeway is involved in various legal proceedings, claims, disputes, regulatory matters, audits, and proceedings arising in the ordinary course of, or incidental, to the Company’s business, including commercial disputes, product liabilities, intellectual property matters and employment-related matters.

Lifeway records provisions in the consolidated financial statements for pending 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, it does not establish an accrued liability. Currently, none of its accruals for outstanding legal matters are material individually or in the aggregate to its 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 its business, financial condition, results of operations, or cash flows. However, if the Company is ultimately required to make payments in connection with an adverse outcome, it is possible that such contingency could have a material adverse effect on the Company’s business, financial condition, results of operations or cash flows.

Note 10 – Income taxes

The provision for income taxes consists of the following:

	For the Years Ended December 31,	
	2023	2022
Current:		
Federal	$ 3,591	$ 645
State and local	1,719	444
Total current	5,310	1,089
Deferred	(28)	(172)
Provision for income taxes	$ 5,282	$ 917

The following is a reconciliation of income tax expense computed at the U.S. federal statutory tax rate to income tax expense reported in the consolidated statement of operations:

	2023		2022	
	Amount	Percentage	Amount	Percentage
Federal income tax at statutory rate	$ 3,496	21.0%	$ 392	21.0%
State and local tax, net	1,126	6.8%	287	15.4%
Other permanent differences	17	0.1%	8	0.4%
Section 162m	435	2.6%	229	12.2%
Stock based compensation	203	1.2%	127	6.8%
Change in tax rates	5	0.0%	(83)	(4.4%)
Other	–	–%	(43)	(2.3%)
Provision for income taxes	$ 5,282	31.7%	$ 917	49.1%

The tax effects of temporary differences giving rise to deferred income tax assets and liabilities were:

	December 31,	
	2023	2022
Deferred tax liabilities attributable to:		
Accumulated depreciation and amortization	$ (3,519)	$ (3,394)
Unrealized gains	(469)	(472)
Total deferred tax liabilities	(3,988)	(3,866)
Deferred tax assets attributable to:		
Net operating losses	6	6
Accrued compensation	403	287
Incentive compensation	301	194
Inventory	280	328
Allowances for doubtful accounts and discounts	3	5
Other	(6)	17
Total net deferred tax assets	987	837
Net deferred tax liabilities	$ (3,001)	$ (3,029)

The following table details the Company's tax attributes related to net operating losses for which it has recorded deferred tax assets.

Tax Attributes	Gross Amount	Net Amount	Expiration Years
State net operating losses	$ 116	$ 6	2035
		$ 6	

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2023	2022
Balance at January 1	$ –	$ 396
Additions based on tax positions of prior years	–	–
Settlement for tax positions of prior years	–	(396)
Balance at December 31	$ –	$ –

Lifeway is subject to U.S. federal income tax as well as income tax in multiple state and city jurisdictions. With limited exceptions, Lifeway's calendar year 2020 and subsequent federal and state tax years remain open by statute. As of December 31, 2023, the unrecognized tax benefit is $0.

The amount of interest and penalties recognized in the consolidated statements of operations was $0 during 2023 and 2022, respectively. The amount of accrued interest and penalties recognized in the consolidated balance sheets was $0 at December 31, 2023 and 2022, respectively.

Note 11 – Stock-based and Other Compensation

Omnibus Incentive Plan

In December 2015, Lifeway stockholders approved the 2015 Omnibus Incentive Plan, which authorized the issuance of an aggregate of 3.5 million shares to satisfy awards of stock options, stock appreciation rights, unrestricted stock, restricted stock, restricted stock units, performance shares and performance units to qualifying employees. Under the Plan, the Board or its Audit and Corporate Governance Committee approves stock awards to executive officers and certain senior executives, generally in the form of restricted stock or performance shares. The number of performance shares that participants may earn depends on the extent to which the corresponding performance goals have been achieved. Stock awards generally vest over a three-year performance or service period. At December 31, 2023, no shares remain available for award under the 2015 Omnibus Incentive Plan as it was terminated on August 31, 2022. However, any outstanding awards under the 2015 Omnibus Incentive Plan are unaffected by the termination of the 2015 Omnibus Incentive Plan or by the approval of the 2022 Omnibus Incentive Plan (the "2022 Plan") as described below.

On August 31, 2022, Lifeway stockholders approved the 2022 Plan. Under the 2022 Plan, the Compensation Committee of the Board of Directors may grant awards of various types of compensation, including, nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, cash-based awards and other stock-based awards. The maximum number of shares authorized to be awarded under the 2022 Plan is 3.25 million shares of common stock, which includes shares that remained available under the now terminated 2015 Omnibus Incentive Plan.

Awards granted under the 2022 Plan are generally subject to a minimum vesting period of at least one year. Awards may be subject to cliff-vesting or graded-vesting conditions, with graded vesting starting no earlier than one year after the grant date. The Plan Administrator may provide for shorter vesting periods in an award agreement for no more than five percent of the maximum number of shares authorized for issuance under the 2022 Plan. As of December 31, 2023, 2.77 million shares remain available to award under the 2022 Plan.

Stock Options

The following table summarizes stock option activity during the year ended December 31, 2023:

	Options	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
	(In thousands)			
Outstanding at December 31, 2022	41	$ 10.42	3.22	$ –
Granted	–	–	–	
Exercised	–	–	–	
Forfeited	–	–	–	
Outstanding at December 31, 2023	41	10.42	2.21	121
Exercisable at December 31, 2023	41	10.42	2.21	121

Restricted Stock Units

A Restricted Stock Unit (“RSU”) represents the right to receive one share of common stock in the future. RSUs have no exercise price. The following table summarizes RSU activity during the year ended December 31, 2023.

	Restricted Stock Units	Weighted Average Grant Date Fair Value
	(In thousands)	
Nonvested, at December 31, 2022	164	$ 5.69
Granted	85	8.14
Shares issued upon vesting	(37)	4.57
Forfeited	(5)	6.25
Nonvested, at December 31, 2023	207	6.89
Earned and deferred, at December 31, 2023	66	5.75

For the years ended December 31, 2023 and 2022 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $506 and $279, respectively. For the years ended December 31, 2023 and 2022 tax-related benefits of $142 and $78, respectively, were also recognized. Future compensation expense related to nonvested restricted stock units was $682 as of December 31, 2023 and will be recognized over a weighted-average period of 1.4 years.

Long-Term Incentive Plan Compensation

Lifeway has established long-term incentive-based compensation programs for certain senior executives and key employees pursuant to the terms of its incentive plans.

2020 CEO Incentive Award

During 2020, Lifeway awarded a long-term equity-based incentive of $750 to its Chief Executive Officer (the "2020 CEO Award") based on Lifeway's 2020 performance levels compared to the respective targets. The equity-based incentive compensation is payable in restricted stock that vests one-third in April 2022, one-third in April 2023, and one-third in April 2024. The issuance of vested equity awards is subject to approval under the Stock Purchase Agreement dated October 1, 1999. The RSU awards have a grant date fair value of $5.13 dollars per share. For the years ended December 31, 2023 and 2022, $105 and $229 was expensed as stock-based compensation expense in the consolidated statements of operations. As of December 31, 2023, the total remaining unearned compensation was $24, which will be recognized in 2024, subject to vesting.

2021 Equity Award

The 2021 long-term equity incentive plan compensation is based on Lifeway's achievement of adjusted EBITDA performance versus the respective target established by the Board for 2021. Under the 2021 plan, collectively the participants earned equity-based incentive compensation of $1,069 based on Lifeway's achievement of the respective financial target. The equity-based incentive compensation is payable in restricted stock that vests one-third in April 2022, one-third in April 2023, and one-third in April 2024. The RSU awards have a grant date fair value of $6.00 dollars per share. For the years ended December 31, 2023 and 2022, $194 and $449 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of December 31, 2023, the total remaining unearned compensation was $40, which will be recognized in 2024, subject to vesting.

2022 Equity Award

Under the 2022 long-term incentive plan, participants can earn a specified number of target level Performance Share Units ("PSUs") contingent upon the achievement of strategic milestones during the three-year measurement period, which is fiscal year 2022 to 2024. The strategic milestones are 1) 3-year cumulative net revenue, and 2) 3-year cumulative adjusted EBITDA. The target number of PSU awards are weighted 50% on net revenue and 50% on adjusted EBITDA. Collectively, the participants can earn 125,066 PSUs at the target level. Participants may earn more or less than the target number of shares based on actual results, however the minimum and maximum number of shares that can be earned are bound by minimum and maximum thresholds of net revenue and adjusted EBITDA. The PSU awards will be earned and will vest, if at all, after the end of the three-year measurement period based on achievement of the milestones. The PSU awards do not vest during the three-year measurement period. The PSUs have a grant date fair value of $6.25 dollars per share. For the twelve months ended December 31, 2023, and 2022, $473 and $151 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively.

The 2022 long-term incentive plan also granted restricted stock unit awards that contain only a service condition and vest on the passage of time in three equal installments on each of the first three anniversaries of the August 31, 2022 grant date. The stock-based compensation expense for these awards is included in the Restricted Stock Units section above.

2023 Equity Award

Under the 2023 long-term incentive plan, participants can earn a specified number of target level Performance Share Units ("PSUs") contingent upon the achievement of strategic milestones during the three-year Measurement Period, which is fiscal year 2023 to 2025. The strategic milestones are 1) 3-year cumulative net revenue, and 2) 3-year cumulative adjusted EBITDA. The target number of PSU awards are weighted 50% on net revenue and 50% on adjusted EBITDA. Collectively, the participants can earn 115,622 PSUs at the target level. Participants may earn more or less than the target number of shares based on actual results, however the minimum and maximum number of shares that can be earned are bound by minimum and maximum thresholds of net revenue and adjusted EBITDA. The PSU awards will be earned and will vest, if at all, after the end of the three-year measurement period based on achievement of the milestones. The PSU awards do not vest during the three-year measurement period. The PSUs have a grant date fair value of $6.88 dollars per share. For the twelve months ended December 31, 2023 and 2022, $219 and $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively.

The 2023 long-term incentive plan also granted restricted stock unit awards that contain only a service condition and vest on the passage of time in three equal installments on each of the first three anniversaries of the June 16, 2023 grant date. The stock-based compensation expense for these awards is included in the Restricted Stock Units section above.

Non-Employee Director Plan

On August 31, 2022, Lifeway stockholders approved the 2022 Non-Employee Director Equity and Deferred Compensation Plan (the "2022 Director Plan"), which authorizes the grant of restricted stock units ("RSUs"), which will vest on such schedule as the Company, in its sole discretion, shall determine. Each non-employee director of the Company is eligible to be a participant in the 2022 Director Plan until they no longer serve as a non-employee director. As of the date of each annual shareholder meeting, the Company may grant each director a number of RSUs for such year and set the vesting schedule for the RSUs granted. Whether and how many RSUs the Company will grant to directors in any year is subject to the sole discretion of the Company and shall in any event be subject to the 2022 Director Plan's overall share limits. The maximum aggregate number of shares of common stock that may be issued under the 2022 Directors Plan is 500 thousand shares. As of December 31, 2023, 431 thousand shares remain available to award under the 2022 Director Plan. The aggregate fair market value of shares underlying RSU compensation that may be issued as RSU compensation to a director in any year shall not exceed $170. In addition to the grant of RSUs, the 2022 Director Plan also provides for the deferral by electing participants of all or part of their cash compensation (in 10% increments) into a deferred cash account, and they may defer all or part of their cash and/or RSU compensation (in 10% increments) into a deferred RSU account. Deferred benefits are paid in a lump sum upon the applicable director's departure from the Board of Directors.

Retirement Benefits

Lifeway has a defined contribution plan which is available to substantially all full-time employees. Under the terms of the plan we match employee contributions under a prescribed formula. For the years ended December 31, 2023 and 2022 total contribution expense recognized in the consolidated statements of operations was $499 and $446, respectively.

Note 12 - Earnings Per Share

The following table summarizes the effects of the share-based compensation awards on the weighted average number of shares outstanding used in calculating diluted earnings per share:

	Year Ended December 31,	
	2023	**2022**
	(In thousands)	
Weighted average common shares outstanding	14,667	15,396
Assumed exercise/vesting of equity awards	436	322
Weighted average diluted common shares outstanding	15,103	15,718

Note 13 –Disaggregation of Revenue, Significant Customers and Geographic Information

Lifeway's primary product is drinkable kefir. The Company manufactures (directly or through a co-manufacturer) and markets products under the Lifeway, Fresh Made, and GlenOaks Farms brand names, as well as under private labels on behalf of certain customers.

The Company's product categories are:

- Drinkable kefir, a cultured dairy product sold in a variety of organic and non-organic sizes, flavors, and types.
- European-style soft cheeses, including farmer cheese, white cheese, and Sweet Kiss.
- Cream and other, which primarily consists of cream, a byproduct of raw milk processing.
- Drinkable yogurt, sold in a variety of sizes and flavors.
- ProBugs, a line of kefir products designed for children.
- Other dairy, which primarily consists of Fresh Made butter and sour cream.

Net sales of products by category were as follows for the years ended December 31:

	2023		2022	
In thousands	$	%	$	%
Drinkable Kefir other than ProBugs	127,726	80%	110,247	78%
Cheese	13,781	9%	12,651	9%
Cream and other	7,382	4%	7,465	5%
Drinkable Yogurt	6,236	4%	6,105	4%
ProBugs Kefir	3,429	2%	3,403	3%
Other dairy	1,569	1%	1,697	1%
Net Sales	160,123	100%	141,568	100%

Significant Customers

Sales are predominately to companies in the retail food industry located within the United States. Two major customers accounted for approximately 24% and 22% of net sales for the years ended December 31, 2023 and 2022, respectively. Two major customers accounted for 25% and 28% of accounts receivable as of December 31, 2023 and 2022, respectively.

Geographic Information

Net sales outside the of the United States represented less than 1% of total consolidated net sales in 2023 and 2022, respectively. Net sales are determined based on the destination where the products are shipped by Lifeway.

All the Company's long-lived assets are in the United States.

Note 14 – Share repurchases

Stock Purchase Agreement

On November 7, 2022, the Company entered into a Stock Purchase Agreement with Ludmila Smolyansky ("Ms. Smolyansky"), to purchase 850,340 shares of Lifeway common stock from Ms. Smolyansky. The shares were repurchased during the fourth quarter of 2022.

Pursuant to the Stock Purchase Agreement, (i) Ms. Smolyansky sold the shares at a purchase price of $4.70 per share, which represents a twenty percent (20.0%) discount to the average closing price of the common stock on Nasdaq over the five (5) trading day period ended on the trading day immediately preceding the date of the Stock Purchase Agreement and (ii) Ms. Smolyansky used a portion of the proceeds to satisfy in full certain obligations of Ms. Smolyansky, which are secured by previously disclosed pledges of common stock, causing all such pledges to be released. The purchased shares are held in treasury by the Company.

As a closing condition to the Stock Purchase Agreement, Ms. Smolyansky and Mr. Smolyansky delivered an executed amendment (the “Amendment”) to that certain Settlement Agreement dated as of July 27, 2022 (the “Settlement Agreement”), between the Company and Ms. Smolyansky and Mr. Smolyansky. Pursuant to the Amendment, Ms. Smolyansky and Mr. Smolyansky each agree, among other things, to (i) grant the Company a right of first refusal, subject to Danone North America Public Benefit Corporation’s (“Danone”) right of first refusal, on substantially similar terms as Danone (ii) extend the standstill and all related terms under the Proxy Settlement Agreement through the date of the 2024 annual meeting of the Company’s shareholders (the “Standstill”); and (iii) to appear in person or by proxy and vote their respective remaining shares of common stock beneficially owned, individually or otherwise, and controlled by either of them and over which they have power and authority to vote during the Standstill (a) in accordance with the recommendations of the Board at any special meeting or annual meeting of the shareholders with respect to any proposal(s) not related to the sale of the Company or all or substantially all of the assets of the Company; and (b) in proportion to the vote of the other shareholders with respect to any proposal relating to any vote on the sale of the Company or all or substantially all of the assets of the Company.

Note 15 – Related party transactions

Consulting Services

Lifeway obtained consulting services from Ludmila Smolyansky, a former member and former Chairperson of the Company’s Board of Directors. On January 4, 2022, the Company notified Ms. Smolyansky that it was terminating the consultancy agreement effective January 17, 2022. Service fees earned are included in general and administrative expenses in the accompanying consolidated statements of operations and were $0 and $22 during the years ended December 31, 2023 and 2022, respectively.

Endorsement Agreement

Lifeway was also a party to an endorsement agreement, dated as March 14, 2016, by and between the Company and Ludmila Smolyansky, a former member and former Chairperson of the Company’s Board of Directors (the “Endorsement Agreement”) under which it paid Ms. Smolyansky a royalty based on the sale of certain Lifeway products, not to exceed $50 in any fiscal month.

On September 6, 2022, the Company entered into an agreement (the “Termination Agreement”) with Ms. Smolyansky that terminated the Endorsement Agreement as of September 6, 2022.

Pursuant to the Termination Agreement, the Company and Ms. Smolyansky have agreed, among other things, that (i) the Company paid Ms. Smolyansky a lump sum payment of $400,000, (ii) Ms. Smolyansky will no longer have any further claims against the Company under the Endorsement Agreement, and (iii) the Endorsement Agreement was terminated and of no further force or effect except for the provisions thereof that expressly survive termination.

Royalties earned are included in selling expenses in the accompanying consolidated statements of operations and were $0 and $400 during the years ended December 31, 2023 and 2022, respectively.

Stock Purchase Agreement

See the November 2022 stock purchase agreement between Ms. Smolyansky and the Company in Note 14.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure material information required to be disclosed in our reports that 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 our management, including our principal executive officer, principal financial officer and principal accounting officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, we recognize that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

As of December 31, 2023 (the "Evaluation Date"), we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2023 in ensuring that information required to be disclosed by us under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified under the Exchange Act rules.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is identified in Exchange Act Rules 13a-15(f). Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer, principal financial officer and principal accounting officer, and effected by the Board of Directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;

- provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures of the Company are being made only in accordance with authorizations of our management and our directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our consolidated financial statements.

Internal control over financial reporting has inherent limitations which may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the level of compliance with related policies or procedures may deteriorate.

Management, including our Chief Executive Officer and our Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2023. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework (2013). Based on this assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2023.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

During the quarter ended December 31, 2023, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Corporate Governance Guidelines and Code of Ethics

Information required by this Item 10 will be included in our definitive Proxy Statement to be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item 11 will be included in our definitive Proxy Statement to be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information required by this Item 12 will be included in our definitive Proxy Statement to be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

Information required by this Item 13 will be included in our definitive Proxy Statement to be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Information required by this Item 14 will be included in our definitive Proxy Statement to be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. A list of the Financial Statements and Financial Statement Schedules filed as part of this Report is set forth in Part II, Item 8, which list is incorporated herein by reference.

2. Financial Statement Schedules – Separate financial statement schedules have been omitted either because they are not applicable or because the required information is included in the consolidated financial statements

3. Exhibits.

No.	Description	Form	Period Ending	Exhibit	Filing Date
3.1	Articles of Incorporation, as amended and currently in effect	10-K	12/31/2013	3.2	4/2/2014
3.2	Second Amended and Restated Bylaws	10-K	12/31/2022	3.1	3/27/2023
10.1	Stockholders' Agreement dated October 1, 1999 by and among Danone Foods, Inc., Lifeway Foods, Inc., Michael Smolyansky and certain other parties	8-K	10/1/1999	10.11	10/12/1999
10.2	Letter Agreement dated December 24, 1999	8-K	12/24/1999	10.12	1/12/2000
10.3+	Employment Agreement, dated September 12, 2002, between Lifeway Foods, Inc. and Julie Smolyansky	10-QSB/A No. 2	9/30/2002	10.14	4/30/2003
10.5	Termination Agreement dated as of August 30, 2022, between the Company and Ludmila Smolyansky	8-K	9/6/2022	10.2	9/13/2022
10.6	Amended and Restated Loan and Security Agreement dated as of May 7, 2018 among Lifeway Foods, Inc., Fresh Made, Inc., The Lifeway Kefir Shop, LLC, Lifeway Wisconsin, Inc., and CIBC Bank USA, as Lender.	8-K	5/7/2018	10.1	5/11/2018
10.7+	Employment Agreement by and between the Company and Amy Feldman, dated as of October 29, 2018	8-K	10/26/2018	10.1	11/1/2018
10.8+	Employment Agreement by and between the Company and Eric Hanson, dated as of January 18, 2019	8-K	1/1/2019	10.1	1/23/2019
10.9	First Modification to Amended and Restated Loan and Security Agreement dated as of April 10, 2019 among Lifeway Foods, Inc., Fresh Made, Inc., The Lifeway Kefir Shop, LLC, Lifeway Wisconsin, Inc., and CIBC Bank USA, as Lender.	10-K	12/31/2018	10.10	4/15/2019

No.	Description	Form	Period Ending	Exhibit	Filing Date
10.10	Second Modification to Amended and Restated Loan and Security Agreement, effective as of December 10, 2019 by and among Lifeway Foods, Inc., Fresh Made, Inc., The Lifeway Kefir Shop, LLC, Lifeway Wisconsin, Inc., and CIBC Bank USA, as Lender.	8-K	12/10/2019	10.1	12/10/2019
10.11	Third Modification to Amended and Restated Loan and Security Agreement dated as of September 30, 2020 among Lifeway Foods, Inc., Fresh Made, Inc., The Lifeway Kefir Shop, LLC, Lifeway Wisconsin, Inc., and CIBC Bank USA, as Lender.	10-Q	9/30/2020	10.1	10/6/2020
10.12	Fourth Modification to Amended and Restated Loan and Security Agreement, dated as of August 18, 2021, by and among Lifeway Foods, Inc., Fresh Made, Inc., The Lifeway Kefir Shop, LLC, Lifeway Wisconsin, Inc., and CIBC Bank USA, as Lender	8-K	8/18/2021	10.1	8/20/2021
10.14+	Lifeway Foods, Inc. Omnibus Incentive Plan	8-K	12/14/2015	10.2	12/18/2015
10.15+	Notice of Restricted Stock Unit Award	8-K	12/14/2015	10.3	12/18/2015
10.16+	Notice of Performance Unit Award	8-K	12/14/2015	10.4	12/18/2015
10.17+	Notice of Restricted Stock Award	8-K	12/14/2015	10.5	12/18/2015
10.18+	Notice of Non-Qualified Stock Option Award	8-K	12/14/2015	10.6	12/18/2015
10.19	Settlement Agreement dated as of July 27, 2022, between the Company and Edward Smolyansky and Ludmila Smolyansky	8-K	7/27/2022	10.1	7/29/2022
10.20	Amendment to Settlement Agreement dated as of July 27, 2022, between the Company and Edward Smolyansky and Ludmila Smolyansky	10-K	12/31/2022	10.20	3/27/2023
10.21+	Lifeway Foods, Inc. 2022 Omnibus Incentive Plan	8-K	8/31/2022	10.1	9/2/2022
10.22+	Form of Notice of Restricted Stock Award under the Lifeway Foods, Inc. 2022 Non-Employee Director Equity and Deferred Compensation Plan	10-Q	9/30/2022	10.6	11/14/2022
10.23+	Form of Notice of Restricted Stock Unit Award under the Lifeway Foods, Inc. 2022 Omnibus Incentive Plan	10-Q	9/30/2022	10.7	11/14/2022
10.24+	Form of Notice of Performance-Based Restricted Stock Unit Award under the 2022 Omnibus Incentive Plan	10-Q	9/30/2022	10.8	11/14/2022

No.	Description	Form	Period Ending	Exhibit	Filing Date
10.25+	Lifeway Foods, Inc. 2022 2022 Non-Employee Director Equity and Deferred Compensation Plan	8-K	8/31/2022	10.2	9/2/2022
10.26+	Form of Notice of Restricted Stock Unit Award under the Lifeway Foods, Inc. 2022 Non-Employee Director Equity and Deferred Compensation Plan	10-Q	9/30/2022	10.6	11/14/2022
10.27	Settlement Agreement dated as of September 1, 2022, between the Company and Edward Smolyansky	8-K	9/6/2022	10.1	9/13/2022
10.29	Restricted Stock Unit Award Agreement, dated as of April 27, 2022, by and between the Company and Jason Scher.	10-K	12/31/2022	10.29	03/27/2023
21	List of Subsidiaries of the Registrant				
23.1	Consent of Grant Thornton LLP				
31.1	Rule 13a-14(a)/15d-14(a) Certification of Julie Smolyansky				
31.2	Rule 13a-14(a)/15d-14(a) Certification of Eric Hanson				
32.1*	Section 1350 Certification of Julie Smolyansky				
32.2*	Section 1350 Certification of Eric Hanson				
99.1*	Press release dated March 20, 2024 reporting the Company's financial results for year ended December 31, 2023.				
101*	The following financial statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2023, formatted in inline XBRL, include: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.				

\+ Indicates a management contract or compensatory plan or arrangement.

* This exhibit is furnished and not deemed filed with the Securities and Exchange Commission, and is not incorporated by reference into any filing of Lifeway Foods, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of filing this Form 10-K and irrespective of any general incorporation language contained in such filing.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 20, 2024

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

Date: March 20, 2024

By: /s/ Eric Hanson
Eric Hanson
Chief Financial & Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 20, 2024

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

Date: March 20, 2024

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

Date: March 20, 2024

/s/ Jason Scher
Jason Scher
Director

Date: March 20, 2024

/s/ Pol Sikar
Pol Sikar
Director

Date: March 20, 2024

/s/ Jody Levy
Jody Levy
Director

Date: March 20, 2024

/s/ Dorri McWhorter
Dorri McWhorter
Director

Date: March 20, 2024

/s/ Juan Carlos Dalto
Juan Carlos Dalto
Director

Date: March 20, 2024

/s/ Perfecto Sanchez
Perfecto Sanchez
Director

Exhibit 21

Subsidiaries of Lifeway Foods, Inc.

Below is a list of the subsidiaries of Lifeway Foods, Inc. All of the voting stock of each subsidiary is 100% owned directly by Lifeway Foods, Inc.

Name of Subsidiary	**Jurisdiction of Incorporation or Organization**
Lifeway Wisconsin, Inc.	Illinois
Fresh Made, Inc.	Pennsylvania
Lifeway Foods Europe Limited	Ireland

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 20, 2024, with respect to the consolidated financial statements included in the Annual Report of Lifeway Foods, Inc. on Form 10-K for the year ended December 31, 2023. We consent to the incorporation by reference of said report in the Registration Statements of Lifeway Foods, Inc. on Forms S-8 (No. 333-210463 and No. 333-272175).

/s/ Grant Thornton LLP

Chicago, Illinois
March 20, 2024

Exhibit 31.1

SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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 annual report on Form 10-K 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(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: March 20, 2024

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

Exhibit 31.2

SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

I, Eric Hanson, certify that:

1. I have reviewed this annual report on Form 10-K 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(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: March 20, 2024

By: /s/ Eric Hanson
Eric Hanson
Chief Financial & Accounting Officer

Exhibit 32.1

SECTION 906 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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 Annual Report on Form 10-K of Lifeway Foods, Inc. (the “Company”) for the period ended December 31, 2023 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: March 20, 2024

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

Exhibit 32.2

SECTION 906 CERTIFICATION OF CHIEF FINANCIAL OFFICER

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 Annual Report on Form 10-K of Lifeway Foods, Inc. (the “Company”) for the period ended December 31, 2023 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: March 20, 2024

By: /s/ Eric Hanson
Eric Hanson
Chief Financial & Accounting Officer

Exhibit 99.1

Lifeway Foods® Announces Record-Breaking Fourth Quarter and Monumental Full Year 2023 Results

Record annual net sales of $160.1 million; up 13.1% year-over-year

17^{th} consecutive quarter of year-over-year growth

Delivers 760 basis points of annual gross profit margin expansion

Morton Grove, IL — March 20, 2024 — Lifeway Foods, Inc. (Nasdaq: LWAY) (“Lifeway” or “the Company”), a leading U.S. supplier of kefir and fermented probiotic products to support the microbiome, today reported financial results for the fourth quarter and full year ended December 31, 2023.

“I am pleased to report another outstanding year for Lifeway Foods, highlighted by our record-breaking annual net sales, and driven by volume growth in our flagship Lifeway drinkable kefir,” commented Julie Smolyansky, President and Chief Executive Officer of Lifeway Foods. “Our exceptional results in 2023 culminated with our highest ever quarterly net sales of $42.1 million in the fourth quarter, our 17^{th} consecutive quarter of year-over-year growth. Our volume growth throughout the year is a testament to the steadfast loyalty of our expanding customer base. It is also a product of the effectiveness of our strategic sales and marketing investments at driving velocities in our core products and capturing additional consumers seeking premium, healthy offerings. Our profitability improvements for the year were significant across all of our key metrics, including gross profit margin and net income, guided by our strong operational execution and aided by favorable milk pricing. We are well positioned to build on this momentum in 2024, and plan to continue reinvesting in our core products to drive brand exposure and further growth. I would like to thank the entire Lifeway team, including our customers and retail partners, for helping us deliver these excellent results for 2023.”

Full Year 2023 Results

Net sales were $160.1 million for the year ended December 31, 2023, an increase of $18.6 million or 13.1% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir, and to a lesser extent the impact of price increases implemented during the fourth quarter of 2022.

Gross profit as a percentage of net sales increased to 26.5% for the year ended December 31, 2023 from 18.9% during the same period in 2022. The 760-basis point increase versus the prior year was primarily due to the higher volumes of Lifeway branded products and the favorable impact of milk pricing, and to a lesser extent the price increases implemented during the fourth quarter of 2022 and decreased transportation costs.

Selling, general and administrative expenses as a percentage of net sales were 15.6% for the year ended December 31, 2023, compared to 16.9% in the prior year.

The Company reported net income of $11.4 million or $0.77 per basic and $0.75 per diluted common share for the year ended December 31, 2023 compared to net income of $0.9 million or $0.06 per basic and diluted common share during the same period in 2022.

Conference Call and Webcast
A pre-recorded conference call and webcast with Julie Smolyansky discussing these results with additional comments and details is available through the "Investor Relations" section of the Company's website at https://lifewaykefir.com/webinars-reports/ and will also be available for replay.

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

Forward-Looking Statements

This release (and oral statements made regarding the subjects of this release) contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 regarding, among other things, future operating and financial performance, product development, market position, business strategy and objectives. These statements use words, and variations of words, such as "continue," "build," "future," "increase," "drive," "believe," "look," "ahead," "confident," "deliver," "outlook," "expect," and "predict." Other examples of forward-looking statements may include, but are not limited to, (i) statements of Company plans and objectives, including the introduction of new products, or estimates or predictions of actions by customers or suppliers, (ii) statements of future economic performance, and (III) statements of assumptions underlying other statements and statements about Lifeway or its business. You are cautioned not to rely on these forward-looking statements. These statements are based on current expectations of future events and thus are inherently subject to uncertainty. If underlying assumptions prove inaccurate or known or unknown risks or uncertainties materialize, actual results could vary materially from Lifeway's expectations and projections. These risks, uncertainties, and other factors include: price competition; the decisions of customers or consumers; the actions of competitors; changes in the pricing of commodities; the effects of government regulation; possible delays in the introduction of new products; and customer acceptance of products and services. A further list and description of these risks, uncertainties, and other factors can be found in Lifeway's Annual Report on Form 10-K for the fiscal year ended December 31, 2023, and the Company's subsequent filings with the SEC. Copies of these filings are available online at https://www.sec.gov, http://lifewaykefir.com/investor-relations/, or on request from Lifeway. Information in this release is as of the dates and time periods indicated herein, and Lifeway does not undertake to update any of the information contained in these materials, except as required by law. Accordingly, YOU SHOULD NOT RELY ON THE ACCURACY OF ANY OF THE STATEMENTS OR OTHER INFORMATION CONTAINED IN ANY ARCHIVED PRESS RELEASE.

Media:
Derek Miller
Vice President of Communications, Lifeway Foods
Email: derekm@lifeway.net

General inquiries:
Lifeway Foods, Inc.
Phone: 847-967-1010
Email: info@lifeway.net

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2023 and 2022
(In thousands)

	December 31,			
		2023		2022
Current assets				
Cash and cash equivalents	$	13,198	$	4,444
Accounts receivable, net of allowance for credit losses and discounts & allowances of $1,270 and $1,820 at December 31, 2023 and 2022, respectively		13,875		11,414
Inventories, net		9,104		9,631
Prepaid expenses and other current assets		2,019		1,445
Refundable income taxes		–		44
Total current assets		**38,196**		**26,978**
Property, plant and equipment, net		22,764		20,905
Operating lease right-of use asset		192		174
Goodwill		11,704		11,704
Intangible assets, net		6,898		7,438
Other assets		1,900		1,800
Total assets	**$**	**81,654**	**$**	**68,999**
Current liabilities				
Current portion of note payable	$	1,250	$	1,250
Accounts payable		9,976		7,979
Accrued expenses		4,916		3,813
Accrued income taxes		474		–
Total current liabilities		**16,616**		**13,042**
Line of credit		–		**2,777**
Note payable		**1,483**		**2,477**
Operating lease liabilities		**118**		**104**
Deferred income taxes, net		**3,001**		**3,029**
Total liabilities		**21,218**		**21,429**
Commitments and contingencies (Note 9)				
Stockholders' equity				
Preferred stock, no par value; 2,500 shares authorized; none issued		–		–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 14,691 and 14,645 shares outstanding at 2023 and 2022		6,509		6,509
Paid-in capital		4,825		3,624
Treasury stock, at cost		(16,695)		(16,993)
Retained earnings		65,797		54,430
Total stockholders' equity		**60,436**		**47,570**
Total liabilities and stockholders' equity	**$**	**81,654**	**$**	**68,999**

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the three months and twelve months ended December 31, 2023 and 2022
(In thousands, except per share data)

	Three Months Ended December 31,		Twelve months Ended December 31,	
	2023	2022	2023	2022
Net sales	**$ 42,093**	**$ 35,838**	**$ 160,123**	**$ 141,568**
Cost of goods sold	29,632	27,318	115,060	112,350
Depreciation expense	669	599	2,622	2,432
Total cost of goods sold	30,301	27,917	117,682	114,782
Gross profit	**11,792**	**7,921**	**42,441**	**26,786**
Selling expenses	2,802	2,777	11,776	11,304
General and administrative	3,102	3,047	13,130	12,593
Amortization expense	135	135	540	540
Total operating expenses	**6,039**	**5,959**	**25,446**	**24,437**
Income from operations	**5,753**	**1,962**	**16,995**	**2,349**
Other income (expense):				
Interest expense	(62)	(96)	(384)	(267)
Gain (loss) on sale of property and equipment	1	(241)	34	(241)
Other income (expense)	5	10	4	–
Total other income (expense)	(56)	(327)	(346)	(508)
Income before provision for income taxes	**5,697**	**1,635**	**16,649**	**1,841**
Provision for income taxes	1,728	919	5,282	917
Net income	**$ 3,969**	**$ 716**	**$ 11,367**	**$ 924**
Net earnings per common share:				
Basic	$ 0.27	$ 0.05	$ 0.77	$ 0.06
Diluted	$ 0.26	$ 0.05	$ 0.75	$ 0.06
Weighted average common shares outstanding:				
Basic	14,691	15,199	14,667	15,396
Diluted	15,174	15,557	15,103	15,718

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Cash flows from operating activities:		
Net income	**$ 11,367**	**$ 924**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	3,162	2,972
Non-cash interest expense	6	6
Bad debt expense	2	–
Deferred revenue	–	(28)
Stock-based compensation	1,497	1,109
Deferred income taxes	(28)	(172)
(Gain) loss on sale of property and equipment	(34)	241
(Increase) decrease in operating assets:		
Accounts receivable	(2,463)	(1,483)
Inventories	527	(1,345)
Prepaid expenses and other current assets	(574)	(191)
Refundable income taxes	44	300
Increase (decrease) in operating liabilities:		
Accounts payable	1,859	1,945
Accrued expenses	1,102	434
Accrued income taxes	474	(725)
Net cash provided by operating activities	**16,941**	**3,987**
Cash flows from investing activities:		
Purchases of property and equipment	(4,351)	(3,449)
Proceeds from sale of equipment	41	–
Acquisition, net of cash acquired	–	(580)
Purchase of investments	(100)	–
Net cash used in investing activities	**(4,410)**	**(4,029)**
Cash flows from financing activities:		
Repayment of line of credit	(2,777)	–
Repayment of note payable	(1,000)	(750)
Purchase of treasury stock	–	(3,997)
Net cash used in financing activities	**(3,777)**	**(4,747)**
Net increase (decrease) in cash and cash equivalents	**8,754**	**(4,789)**
Cash and cash equivalents at the beginning of the period	4,444	9,233
Cash and cash equivalents at the end of the period	**$ 13,198**	**$ 4,444**
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	$ 4,792	$ 1,121
Cash paid for interest	$ 415	$ 247
Non-cash investing activities		
Accrued purchase of property and equipment	$ 137	$ 424
Right-of-use assets obtained in exchange for lease obligations	$ 94	$ 83