

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, 2024

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

(State or other jurisdiction of
incorporation or organization)

36-3442829

(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
Preferred Stock Purchase Rights	None	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, 2024 (\$12.77 per share as quoted on the Nasdaq Global Market) was \$74,355,253.

As of March 14, 2025, 15,203,241 shares of the registrant's common stock, no par value, were outstanding.

Portions of the Registrant's definitive proxy statement to be filed no later than 120 days after the close of the fiscal year covered by this report on Form 10-K are incorporated by reference into Part III.

Table of Contents

	Page
<u>PART I</u>	
Item 1. Business	1
Item 1A. Risk Factors	6
Item 1B. Unresolved Staff Comments	18
Item 1C. Cybersecurity	18
Item 2. Properties	19
Item 3. Legal Proceedings	19
Item 4. Mine Safety Disclosures	19
<u>PART II</u>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	20
Item 6. [RESERVED]	20
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	20
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	27
Item 8. Financial Statements and Supplementary Data	27
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	28
Item 9A. Controls and Procedures	28
Item 9B. Other Information	29
Item 9C. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections	29
<u>PART III</u>	
Item 10. Directors, Executive Officers and Corporate Governance	30
Item 11. Executive Compensation	30
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	30
Item 13. Certain Relationships and Related Transactions and Director Independence	30
Item 14. Principal Accountant Fees and Services	30
<u>PART IV</u>	
Item 15. Exhibits, Financial Statement Schedules	31
Item 16. Form 10-K Summary	33
Signatures	34

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;
- the impact of proposals to acquire the Company or actions taken by stockholders, including actions related to a possible acquisition of the Company;
- 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 U.S. Securities and Exchange Commission (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, 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 consists primarily of cream, a byproduct of making our kefir;
- Drinkable yogurt, sold in a variety of sizes and flavors;
- ProBugs, a line of kefir products designed for children;
- 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:

In thousands	2024		2023	
	\$	%	\$	%
Drinkable Kefir other than ProBugs	\$ 153,493	82%	\$ 127,726	80%
Cheese	14,554	8%	13,781	9%
Cream and other	8,299	4%	7,382	4%
Drinkable Yogurt	5,619	3%	6,236	4%
Probugs Kefir	3,421	2%	3,429	2%
Other dairy	1,434	1%	1,569	1%
Net Sales	<u>\$ 186,820</u>	<u>100%</u>	<u>\$ 160,123</u>	<u>100%</u>

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 2024 and 2023, approximately 94% and 93% 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 2024 and 2023, approximately 6% and 7% 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 52% of our total net sales for the year ended 2024.

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 46% of our total net sales for year ended 2024.

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 2024.

Distribution outside of the U.S.

Lifeway's primary market is the United States; however, certain distributors based in the United States sell our products to retailers in Mexico, portions of Central and 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 3% of net sales for the year ended 2024.

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 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 utilities, such as 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, 2024, two customers accounted for a total of 25% of our total net sales. Two customers accounted for a total of 26% of net accounts receivable as of December 31, 2024.

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.

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, 2024, we employed 291 full-time and one part-time employee, of which 100 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. 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 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 manufacturing platform and we rely primarily on internal production resources to fulfill our manufacturing needs. Our ongoing initiatives to expand our manufacturing 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.

Although the Company does not have any indebtedness outstanding as of December 31, 2024, the Company may incur indebtedness in the future. Outstanding debt obligations 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 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. Although the Company believes that the Stockholders' Agreement, dated as of October 1, 1999 (and as amended on December 24, 1999 and as extended in certain respects in eight extensions executed by certain of the parties to the Stockholders' Agreement, the last of which was dated as of December 31, 2009 (the "Stockholders' Agreement")), by and among Danone North America Public Benefit Corporation or an affiliate thereof (collectively, "Danone"), Lifeway and certain Lifeway shareholders, is invalid, the Stockholders' Agreement purports to limit the Company's ability to issue shares of Company common stock or convertible securities outside of specified, limited situations without providing Danone a right of first refusal, in the case of issuances of Company common stock, or first obtaining Danone's prior consent, in the case of issuances of securities convertible into Company common stock in excess of a specified amount. If the Stockholders' Agreement is valid or if third parties are unwilling to participate in transactions due to the uncertainty relating to the validity of the Stockholders' Agreement, the Company may not be able to raise additional funds through the issuance of equity or equity-linked securities.

As of December 31, 2024, we had \$0 outstanding under the Revolving Credit Facility and note payable. 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 bears 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.

A substantial portion of our common stock is held by members of the Smolyansky family and Danone, and they have the ability to control the outcome of matters submitted for stockholder approval.

Our four largest shareholders, Julie Smolyansky (the Company's chief executive officer and the daughter of our founder), Edward Smolyansky (our former chief operations officer and son of our founder), Ludmila Smolyansky (a former member of our Board and the widow of our founder) and Danone, beneficially owned approximately 18%, 21%, 8% and 23% of the Company's outstanding common stock, respectively, as of December 31, 2024. Certain of these shareholders, together, could significantly influence any matter requiring approval by our stockholders, including the election or removal of all of our directors, amendments to our articles of incorporation 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 combination of Julie Smolyansky, Edward Smolyansky, Ludmila Smolyansky and Danone. The interests of the Smolyansky family members and Danone could differ from those of other stockholders in ways that could be adverse to the interests of other stockholders. By exercising their influence, such stockholders 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. Additionally, concentration of ownership could also harm the market price of our common stock if investors perceive disadvantages in owning stock in a company of which a substantial portion of common stock is beneficially owned by a small number of stockholders.

Our business could be adversely affected as a result of proposals to acquire the Company or other actions taken by stockholders related to a possible acquisition of the Company.

In September 2024, Danone publicly made an unsolicited proposal to acquire all of the shares of Company common stock that it did not already own for \$25.00 per share of Company common stock, subject to due diligence, among other things. Then in November 2024, Danone revised its proposal to \$27.00 per share of Company common stock. Our Board carefully considered the initial proposal and the revised proposal in consultation with the Company's independent financial and legal advisors, and ultimately determined that both proposals substantially undervalued the Company and were not in the best interests of the Company or its stockholders or other stakeholders. These proposals, similar proposals that we may receive in the future and any other actions by stockholders or others relating to a potential change of control transaction involving the Company could interfere with our ability to execute our strategic plans, make it more difficult to attract and retain qualified executives and employees, cause management distraction, require us to utilize more resources than anticipated towards review of strategic alternatives and result in the loss of potential business opportunities, any of which could have a material negative impact on the Company. In addition, our business and operations may be harmed to the extent that our customers or suppliers or others believe that we cannot effectively compete in the marketplace without completing a transaction, or if there is customer, supplier or employee uncertainty surrounding the future direction of our product offerings and our strategy. There can be no assurance that any such transaction will be completed now or in the future.

We have had to, and may continue to be required to, incur fees and other expenses related to Danone's proposals, including for third-party advisors. Further, Danone's proposals, similar future proposals that we may receive in the future or any actual or perceived actions by our stockholders or others relating to a potential transaction involving the Company may cause significant fluctuations in our stock price based upon temporary or speculative market perceptions or other factors that do not necessarily reflect the Company's underlying fundamentals and prospects.

The actions of certain of our stockholders could cause us to incur significant expense, disrupt our business, result in a proxy contest or litigation and adversely impact our stock price.

We value constructive input from investors and regularly engage in dialogue with our stockholders regarding strategy and performance. Our Board and management team are committed to acting in the best interests of all of our stockholders.

Two of the Company's largest stockholders, Edward Smolyansky and Ludmila Smolyansky, filed a Schedule 13D/A with the U.S. Securities and Exchange Commission (the "SEC") on August 14, 2024 announcing their intention, among other things, to nominate seven director candidates for election to our Board and replace seven of the eight members of our Board. Edward and Ludmila Smolyansky subsequently filed a preliminary consent solicitation statement with the SEC in furtherance of this objective, and they have made public statements critical of our Board, management and strategy, repeatedly called for the sale of the Company and publicly supported a sale of the Company for \$25 per share. A contested election with respect to the Company's directors could require us to incur substantial legal, public relations and other advisory fees and proxy solicitation expenses. Further, we may choose to initiate, or may become subject to, litigation as a result of proposals by Edward and Ludmila Smolyansky or other stockholders or proxy contests or matters relating thereto, which would serve as a further distraction to our Board and management and could require us to incur significant additional costs.

We may be subject to continued or similar activism in the future, which could cause us to incur significant expense, hinder execution of our business strategy and adversely impact the market price of Company common stock. Stockholder actions, including potential proxy contests, require significant time and attention by management and our Board, potentially interfering with our ability to execute our strategic plan. Such stockholder action could give rise to perceived uncertainties as to our future, adversely affect our relationships with our employees, customers or suppliers and make it more difficult to attract and retain qualified personnel and business partners. These perceived uncertainties may also be exploited by our competitors or other stockholders, which could result in lost business opportunities and make it more difficult to execute on our long-term strategic plan. If customers choose to delay, defer or reduce transactions with us or do business with our competitors instead of us, then our business, financial condition and operating results would be adversely affected. 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. Any of these impacts could materially and adversely affect our business, operating results and financial condition, and the market price of Company common stock could be subject to significant fluctuation or otherwise be adversely affected. If individuals are elected or appointed to our Board with a specific agenda, the ability of our Board to function effectively could be adversely affected, which could in turn adversely affect our ability to effectively and timely implement our strategic plan and create additional value for our stockholders, and adversely affect our business, operating results and financial condition.

Litigation regarding the Stockholders' Agreement may be protracted and costly.

As previously disclosed by the Company, the Company believes that the Stockholders' Agreement is void *ab initio* and unenforceable. Danone has filed suit in the Circuit Court of Cook County, Law Division, in part, to enforce the Stockholders' Agreement. The litigation regarding the Stockholders' Agreement may be protracted and expensive, and under certain circumstances, the Company may be required to reimburse Danone for its legal fees incurred in connection with such litigation. Further, the uncertainty relating to the status of the Stockholders' Agreement may cause third parties to refuse to engage in activities that are purportedly prohibited by the Stockholders' Agreement.

Our shareholder rights plan includes terms and conditions that could discourage a takeover or other transaction that stockholders may consider favorable.

On November 4, 2024, in response to Danone's original proposal and Danone's substantial ownership position in the Company, our Board approved and adopted the Shareholder Rights Agreement with Computershare Trust Company, N.A., as rights agent (the "Rights Agreement"), and declared a dividend of one preferred share purchase right (each, a "Right") for each outstanding share of Company common stock to stockholders of record at the close of business on November 18, 2024. Each Right entitles its holder, subject to the terms of the Rights Agreement, to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, no par value, of the Company at an exercise price of \$130.00 per Right, subject to adjustment. Rights will generally become exercisable only if any person or entity (or any persons or entities acting as a group) acquires 20% or more of the outstanding shares of Company common stock (or, to the extent any person, entity or group beneficially owned 20% or more of the outstanding shares of Company common stock as of immediately prior to the first public announcement of the adoption of the Rights Agreement, such person, entity or group acquires any additional shares). If Rights become exercisable, all holders of Rights (other than the person, entity or group triggering the Rights Agreement, whose Rights will become void and will not be exercisable) will have the right to purchase from the Company for \$130.00, subject to certain potential adjustments, shares of Company common stock having a market value of twice that amount. The Rights Agreement expires on November 4, 2025, unless earlier terminated or the Rights are redeemed or exchanged by the Board. Additional information regarding the Rights Agreement is contained in the Company's Current Report on Form 8-K filed with the SEC on November 5, 2024.

The Rights Agreement will cause substantial dilution to any person, entity or group that acquires beneficial ownership of 20% or more of the outstanding shares of Company common stock (or, to the extent any person, entity or group beneficially owned 20% or more of the outstanding shares of Company common stock as of immediately prior to the first public announcement of the adoption of the Rights Agreement, such person, entity or group acquires any additional shares). As a result, the overall effect of the Rights Agreement and the issuance of the Rights may be to discourage any person, entity or group from gaining a control or control-like position in the Company or engaging in other tactics, potentially disadvantaging the interests of the Company's stockholders, without negotiating with the Board and without paying an appropriate control premium to all stockholders. The Rights Agreement has similar provisions to those of other plans adopted by publicly-held companies in comparable circumstances. It is intended to protect stockholders' interests, including by providing the Board sufficient time to make informed judgments and take actions that are in the best interests of all of the Company's stockholders and other stakeholders. Nevertheless, the Rights Agreement may be considered to have certain anti-takeover effects, including potentially discouraging a third party from attempting to obtain a substantial position in the Company common stock or seeking to obtain control of the Company and discouraging a takeover attempt that stockholders may consider favorable or that could result in a premium over the market price of Company common stock. Even in the absence of a takeover attempt, the Rights Agreement may adversely affect the prevailing market price of Company common stock if it is viewed as discouraging takeover attempts in the future.

Adverse economic conditions in the United States or any of the other countries in which we conduct significant business in the future could negatively affect our business, financial condition and results of operations.

Many of our products may be considered discretionary items for consumers. Consumer spending on discretionary products is influenced by general economic conditions and the availability of discretionary income. Adverse economic conditions in the United States, our primary market, or any of the other jurisdictions in which we conduct significant business in the future, such as the current inflationary economic environment, rising interest rates, financial distress caused by recent or potential bank failures and the associated banking crisis, an economic recession, depression or downturn, a tightening of the credit markets, high energy prices or higher unemployment levels, may lead to decreased consumer spending, reduced credit availability and a decline in consumer confidence and demand, each of which poses a risk to our business. For example, US and global markets have in the past experienced volatility and disruption due to interest rate and inflation increases, as well as the continued escalation of geopolitical tensions, including those as a result of the conflicts between Russia and Ukraine and in the Middle East. Although our business has not yet been materially negatively impacted by such inflationary pressures, we cannot be certain that neither we nor our consumers will be materially impacted by continued pressures.

The change in administration following the 2024 United States presidential election could further impact trade and tariff policies, and could also result in substantial changes to fiscal, tax, or regulatory policies that may impact our business. These additional tariffs, as well as a government's adoption of "buy national" policies or retaliation by another government against such tariffs or policies have introduced significant uncertainty into the market and may affect the prices of and demand for our products, as well as the cost to acquire machinery and equipment from international sources, which could have a material and adverse effect on our business, financial condition and results of operations.

Other significant events may impact economic conditions and affect discretionary spending, including events such as catastrophic environmental disasters or global pandemics. As global economic conditions continue to be volatile and economic uncertainty remains, trends in consumer discretionary spending also remain unpredictable and subject to reductions due to credit constraints and uncertainties about the future. A decrease in consumer spending or in retailer and consumer confidence and demand for our products could have a significant negative impact on our net sales and profitability, including our operating margins and return on invested capital. These economic conditions could cause some of our retail customers or suppliers to experience cash flow or credit problems and impair their financial condition, which could disrupt our business and adversely affect product orders, payment patterns and default rates and increase our bad debt expense.

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 25% of our net sales in the fiscal year ended December 31, 2024. 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 higher in fiscal 2024 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 2024, costs to us increased modestly due to inflationary price increases. However, for market conditions or competitive reasons, our customer pricing actions may 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 exceeds the supply.

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.

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, which we continue to analyze and update as necessary, 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 risk 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 extensive 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, 2025, 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 2024 or 2023.

Purchases of Equity Securities by the Issuer

None.

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, 2024 and 2023 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

Unsolicited Proposal

On November 5, 2024, we announced that our board of directors (our “Board”) determined, after careful and thorough consideration in consultation with the Company’s independent financial and legal advisors, that the unsolicited proposal made on September 23, 2024 by Danone North America PBC (“Danone”) to acquire all of the shares of the Company that it did not already own for \$25.00 per share, substantially undervalued the Company and was not in the best interests of the Company or its stockholders or other stakeholders. In connection with that determination, we entered into a Shareholder Rights Agreement with Computershare Trust Company, N.A., as rights agent (the “Rights Agreement”). Pursuant to the Rights Agreement, our Board declared a dividend of one preferred share purchase right (each a “Right”) for each outstanding share of Company common stock to stockholders of record as of the close of business on November 18, 2024. Each Right entitles its holder, subject to the terms of the Rights Agreement, to purchase from the Company one one-thousandth of one share of Series A Junior Participating Preferred Stock, no par value, of the Company at an exercise price of \$130.00 per Right, subject to adjustment. Rights also attach to any shares of Company common stock that become outstanding after November 18, 2024 and prior to the earlier of the Distribution Time (as defined in the Rights Agreement) and the redemption or expiration of the Rights, and in certain other circumstances described in the Rights Agreement.

On November 15, 2024, Danone revised its offer to acquire all of the shares of the Company that it did not already own from \$25.00 per share to \$27.00 per share. On November 20, 2024, we announced our Board’s determination that, after careful and thorough consideration in consultation with the Company’s independent financial and legal advisors, the revised unsolicited proposal substantially undervalued the Company and was not in the best interests of the Company or its stockholders or other stakeholders. On November 26, we announced additional information regarding the information the Board used to come to this determination.

Debt Refinancing

On February 5, 2025, the Company entered into the Fifth Modification to the Amended and Restated Loan and Security Agreement (the “Fifth Modification”) with its current lender. The Fifth Modification, among other things, (i) increased the commitment for revolving loans under the Credit Agreement from \$5,000 to \$25,000, with interest payable at either the lender Base Rate (the Prime Rate minus 1.00%) or the SOFR plus 1.75%, (ii) extended the termination date of the Credit Agreement to February 5, 2028 and (iii) replaced the quarterly minimum working capital financial covenant with a financial covenant to maintain a maximum cash flow leverage ratio of no greater than 2.00 to 1.00 for each fiscal quarter commencing with the fiscal quarter ending March 31, 2025. The remaining material terms and conditions of the Credit Agreement remain substantially unchanged. The Company had no outstanding borrowings at the time of entry into the Fifth Modification.

Products

In October 2024, we began to roll out our first products with 100% lactose free labeling. Our products were already up to 99% lactose free, so we are pleased to further attract consumers with our new Organic Whole Milk Flavor Fusion items that have this added benefit, along with decreased sugar content. In demand flavors including Hot Honey, Matcha Latte, and Passionfruit Lychee are new additions to our portfolio. The entire lineup is loaded with high-quality bioavailable nutrients, and plays to our strengths, as our organic products have been incredibly successful to date.

We expect health and wellness trends to continue to be a tailwind for our entire premium product portfolio. We plan to continue to invest behind our key products to capture more and more of this growing market,

Distribution Strategy

In September 2024, we announced our first expansion of Kefir distribution in the South African market. In November 2024, we announced our expansion within Dubai and the UAE. The offering of 32oz Lifeway Kefir, 8oz Lactose-Free Lifeway Kefir, ProBugs and farmer cheese, exported from the United States, is expected to begin shipping in the first quarter of 2025 and will become available in supermarkets and hypermarkets in Dubai and across the Emirates. We are taking a measured, and thoughtful approach to global expansion, as we seek markets that are primed for success and can be accessed without a major initial investment.

Trends and Uncertainties

Current Macroeconomic Environment

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 and transportation of materials used to produce and package our products, staffing, and transportation of our products to customers. This proactive planning has allowed the Company to meet increased demand.

Results of Operations

Comparison of Year Ended December 31, 2024 to Year Ended December 31, 2023 (in thousands)

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

	Year Ended December 31,			
	2024		2023	
	\$	%	\$	%
Net sales	186,820	100.0%	160,123	100.0%
Cost of goods sold	135,400	72.5%	115,060	71.9%
Depreciation expense	2,846	1.5%	2,622	1.6%
Total cost of goods sold	138,246	74.0%	117,682	73.5%
Gross profit	48,574	26.0%	42,441	26.5%
Selling expenses	14,743	7.9%	11,776	7.4%
General & administrative expenses	19,439	10.4%	13,130	8.2%
Amortization expense	540	0.3%	540	0.3%
Total operating expenses	34,722	18.6%	25,446	15.9%
Income from operations	13,852	7.4%	16,995	10.6%
Other income (expense):				
Interest expense	(105)	(0.1%)	(384)	(0.2%)
Gain (loss) on sale of property and equipment	(8)	0.0%	34	0.0%
Other income	230	0.1%	4	0.0%
Total other income (expense)	117	0.0%	(346)	(0.2%)
Income before provision for income taxes	13,969	7.4%	16,649	10.4%
Provision for income taxes	4,944	2.6%	5,282	3.3%
Net income	9,025	4.8%	11,367	7.1%

Net Sales

Net sales were \$186,820 for the year ended December 31, 2024, an increase of \$26,697 or 16.7% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir.

Gross Profit

Gross profit as a percentage of net sales decreased to 26.0% during the year ended December 31, 2024 from 26.5% during the same period in 2023. The decrease versus the prior year was driven by the unfavorable impact of milk pricing, and to a lesser extent the increase in other input costs, partially offset by favorable transportation costs.

Selling Expenses

Selling expenses increased by \$2,967 to \$14,743 during the year ended December 31, 2024 from \$11,776 during the same period in 2023. Selling expenses as a percentage of net sales increased to 7.9% during the year ended December 31, 2024 from 7.4% during the same period in 2023. The increase is primarily a result of our continued investments in marketing activities to drive brand awareness and sales volumes.

General and Administrative Expenses

General and administrative expenses increased \$6,309 to \$19,439 during the year ended December 31, 2024 from \$13,130 during the same period in 2023. Legal and professional fees associated with non-routine stockholder action and the Danone unsolicited purchase proposal, and the CEO retention bonus awarded in the fourth quarter of 2024, account for approximately 75% of the increase. General and administrative stock-based compensation expense increased \$784 compared to the same period in 2023.

Provision for Income Taxes

The provision for income taxes includes federal, state and local income taxes. The provision for income taxes was \$4,944 and \$5,282 during the year ended December 31, 2024 and 2023, respectively.

The effective income tax rate was 35.4% in 2024 compared to 31.7% in 2023. The statutory Federal and state tax rates remained consistent from 2023 to 2024. 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 2024, the percentage effect is different primarily due to the increase in certain non-deductible compensation in 2024 compared to 2023. The increase is partially offset by the difference in pre-tax income in 2024 compared to 2023.

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 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, 2024 (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,	
	2024	2023
Net Cash Flows Provided By (Used In):		
Operating activities	\$ 12,962	\$ 16,941
Investing activities	\$ (6,682)	\$ (4,410)
Financing activities	\$ (2,750)	\$ (3,777)

Operating Activities

Net cash provided by operating activities was \$12,962 in 2024 compared to \$16,941 in 2023. The decrease was primarily due to lower cash earnings driven by non-routine stockholder action, and the change in working capital.

Investing Activities

Net cash used in investing activities was \$6,682 in 2024 compared to \$4,410 in 2023. The increase in cash used reflects our planned capital spending increase during 2024 compared to 2023. Our capital spending is focused in three core areas: growth, cost reduction, and facility improvements. Growth capital spending supports increased production capacity, new product innovation and enhancements. Cost reduction and facility improvements support manufacturing efficiency, safety, and productivity. We continue to make capital expenditures primarily to modernize manufacturing facilities and support productivity initiatives.

Financing Activities

Net cash used in financing activities was \$2,750 in 2024 compared to \$3,777 in 2023. The cash used represents the quarterly principal payments under the term loan. The Company paid the outstanding term loan balance of \$2,250 in full during the second quarter of 2024.

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 \$5,000 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 \$5,000 (the “Revolving Credit Facility”) and an incremental facility not to exceed \$5,000. The termination date of the term loan is August 18, 2026, unless earlier terminated. The term loan was terminated during the second quarter of 2024 upon payment of the outstanding loan balance in full. The termination date of the revolving credit facility is June 30, 2025, unless earlier terminated.

As of December 31, 2024, the Company had \$0 outstanding under the Revolving Credit Facility and note payable. The Company had \$5,000 available for future borrowings under the Revolving Credit Facility as of December 31, 2024.

All outstanding amounts under the loans bear interest at the Secured Overnight Financing Rate (“SOFR”), plus 2.07%. 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, 2024. 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 judgment. 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, 2024. 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, 2024. 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, 2024, we had \$1,590 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 2024 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 Accounting Firm (PCAOB ID 248)	F-1
Consolidated Balance Sheets as of December 31, 2024 and 2023	F-2
Consolidated Statements of Operations for the Years Ended December 31, 2024 and 2023	F-3
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2024 and 2023	F-4
Consolidated Statements of Cash Flows for the Years Ended December 31, 2024 and 2023	F-5
Notes to Consolidated Financial Statements	F-6

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
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, 2024 and 2023, the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the two years in the period ended December 31, 2024, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2024, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated 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.

/s/ GRANT THORNTON LLP

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

Chicago, Illinois
March 14, 2025

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2024 and 2023
(In thousands)

	December 31,	
	2024	2023
Current assets		
Cash and cash equivalents	\$ 16,728	\$ 13,198
Accounts receivable, net of allowance for credit losses and discounts & allowances of \$1,590 and \$1,270 at December 31, 2024 and 2023, respectively	15,424	13,875
Inventories, net	8,678	9,104
Prepaid expenses and other current assets	2,144	2,019
Refundable income taxes	631	–
Total current assets	43,605	38,196
Property, plant and equipment, net	26,862	22,764
Operating lease right-of use asset	118	192
Goodwill	11,704	11,704
Intangible assets, net	6,358	6,898
Other assets	1,900	1,900
Total assets	\$ 90,547	\$ 81,654
Current liabilities		
Current portion of note payable	\$ –	\$ 1,250
Accounts payable	10,401	9,976
Accrued expenses	5,103	4,916
Accrued income taxes	–	474
Total current liabilities	15,504	16,616
Note payable	–	1,483
Operating lease liabilities	70	118
Deferred income taxes, net	3,062	3,001
Total liabilities	18,636	21,218
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; 15,100 and 14,691 shares outstanding at 2024 and 2023	6,509	6,509
Paid-in capital	4,632	4,825
Treasury stock, at cost	(14,052)	(16,695)
Retained earnings	74,822	65,797
Total stockholders' equity	71,911	60,436
Total liabilities and stockholders' equity	\$ 90,547	\$ 81,654

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Years Ended December 31, 2024 and 2023
(In thousands, except per share data)

	2024	2023
Net sales	\$ 186,820	\$ 160,123
Cost of goods sold	135,400	115,060
Depreciation expense	2,846	2,622
Total cost of goods sold	138,246	117,682
Gross profit	48,574	42,441
Selling expenses	14,743	11,776
General and administrative	19,439	13,130
Amortization expense	540	540
Total operating expenses	34,722	25,446
Income from operations	13,852	16,995
Other income (expense):		
Interest expense	(105)	(384)
Gain (loss) on sale of property and equipment	(8)	34
Other income	230	4
Total other income (expense)	117	(346)
Income before provision for income taxes	13,969	16,649
Provision for income taxes	4,944	5,282
Net income	\$ 9,025	\$ 11,367
Net earnings per common share:		
Basic	\$ 0.61	\$ 0.77
Diluted	\$ 0.60	\$ 0.75
Weighted average common shares outstanding:		
Basic	14,769	14,667
Diluted	15,130	15,103

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2024 and 2023
(In thousands)

	Common Stock				Paid-In Capital	Retained Earnings	Total Equity
	Issued		In treasury				
	Shares	\$	Shares	\$			
Balance, January 1, 2023	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
Issuance of common stock in connection with stock-based compensation	–	–	398	2,573	(2,790)	–	(217)
Issuance of common stock on exercise of stock options	–	–	11	70	36	–	106
Stock-based compensation	–	–	–	–	2,561	–	2,561
Net Income	–	–	–	–	–	9,025	9,025
Balance, December 31, 2024	17,274	\$ 6,509	(2,174)	\$ (14,052)	\$ 4,632	\$ 74,822	\$ 71,911

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2024 and 2023
(In thousands)

	2024	2023
Cash flows from operating activities:		
Net income	\$ 9,025	\$ 11,367
<i>Adjustments to reconcile net income to operating cash flow:</i>		
Depreciation and amortization	3,386	3,162
Non-cash interest expense	17	6
Bad debt expense	–	2
Stock-based compensation	2,446	1,497
Deferred income taxes	61	(28)
Loss (gain) on sale of property and equipment	8	(34)
<i>(Increase) decrease in operating assets:</i>		
Accounts receivable	(1,550)	(2,463)
Inventories	426	527
Prepaid expenses and other current assets	(125)	(574)
Refundable income taxes	(631)	44
<i>Increase (decrease) in operating liabilities:</i>		
Accounts payable	156	1,859
Accrued expenses	217	1,102
Accrued income taxes	(474)	474
Net cash provided by operating activities	12,962	16,941
Cash flows from investing activities:		
Purchases of property and equipment	(6,697)	(4,351)
Proceeds from sale of equipment	15	41
Purchase of investments	–	(100)
Net cash used in investing activities	(6,682)	(4,410)
Cash flows from financing activities:		
Repayment of line of credit	–	(2,777)
Repayment of note payable	(2,750)	(1,000)
Net cash used in financing activities	(2,750)	(3,777)
Net increase in cash and cash equivalents	3,530	8,754
Cash and cash equivalents at the beginning of the period	13,198	4,444
Cash and cash equivalents at the end of the period	\$ 16,728	\$ 13,198
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	\$ 5,987	\$ 4,792
Cash paid for interest	\$ 98	\$ 415
Non-cash investing activities		
Accrued purchase of property and equipment	\$ 407	\$ 137
Right-of-use assets obtained in exchange for lease obligations	\$ –	\$ 94

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2024 and 2023
(In thousands)

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 accounts 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. Accounts receivable, less allowances was \$15,424, \$13,875 and \$11,414, as of December 31, 2024, 2023, and 2022 respectively.

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, 2024, and 2023, 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 2024 or 2023.

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 \$5,447 and \$3,733 for the years ended December 31, 2024 and 2023, 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 2024, the Financial Accounting Standards Board ("FASB") issued ASU 2024-03, Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Topic 220-40): Disaggregation of Income Statement Expenses. The new standard requires additional disclosure of certain amounts included in the expense captions presented on the Statement of Operations as well as disclosures about selling expenses. The new standard is effective on a prospective basis, with the option for retrospective application, for our annual period ending December 31, 2027, and our interim periods during the fiscal year ending December 31, 2028. The new standard does not affect recognition or measurement in the Company's consolidated financial statements. Upon adoption, the impact of ASU 2024-03 will be limited to certain notes to the 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 new standard is effective for our fiscal year ending December 31, 2025, and our interim periods during the fiscal year ending December 31, 2026. The guidance does not affect recognition or measurement in the Company’s consolidated financial statements. Upon adoption, the impact of ASU 2023-09 will be limited to certain notes to the Consolidated Financial Statements.

Adopted

In November 2023, the FASB issued Accounting Standards Update (“ASU”) No. 2023-07: Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The new standard 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 new standard 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 Company adopted this standard during the fourth quarter of 2024. The new standard did not affect recognition or measurement in the Company’s consolidated financial statements.

Note 3 – Inventories, net

	December 31,	
	2024	2023
Ingredients	\$ 2,519	\$ 2,929
Packaging	2,855	3,014
Finished goods	3,304	3,161
Total inventories, net	<u>\$ 8,678</u>	<u>\$ 9,104</u>

Note 4 – Property, Plant and Equipment, net

	December 31,	
	2024	2023
Land	\$ 1,565	\$ 1,565
Buildings and improvements	23,520	21,661
Machinery and equipment	38,181	33,573
Vehicles	477	705
Office equipment	758	1,072
Construction in process	2,163	2,154
	66,664	60,730
Less accumulated depreciation	(39,802)	(37,966)
Total property, plant and equipment, net	<u>\$ 26,862</u>	<u>\$ 22,764</u>

Note 5 – Goodwill and Intangible Assets

Goodwill

Goodwill consisted of the following:

	<u>Total</u>
<u>Balance at December 31, 2023</u>	
Goodwill	\$ 12,948
Accumulated impairment losses	(1,244)
	<u>\$ 11,704</u>
<u>Balance at December 31, 2024</u>	
Goodwill	\$ 12,948
Accumulated impairment losses	(1,244)
	<u>\$ 11,704</u>

The Company performed an annual Step 0 impairment assessment for its single reporting unit as of December 31, 2024 and 2023, 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:

	<u>December 31, 2024</u>			<u>December 31, 2023</u>		
	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	(1,532)	1,853	3,385	(1,372)	2,013
Brand names	7,948	(3,443)	4,505	7,948	(3,063)	4,885
Formula	438	(438)	–	438	(438)	–
Total intangible assets, net	<u>\$ 16,344</u>	<u>\$ (9,986)</u>	<u>\$ 6,358</u>	<u>\$ 16,344</u>	<u>\$ (9,446)</u>	<u>\$ 6,898</u>

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

Year	Amortization
2025	\$ 540
2026	\$ 540
2027	\$ 540
2028	\$ 540
2029	\$ 540

The weighted-average remaining amortization expense period for the customer relationship and brand name intangible assets is 11.6 and 11.9 years, respectively, as of December 31, 2024. The weighted-average remaining amortization expense period for total intangible assets is 11.8 years as of December 31, 2024.

Note 6 – Accrued Expenses

Accrued expenses consisted of the following:

	December 31,	
	2024	2023
Payroll and incentive compensation	\$ 4,188	\$ 3,853
Real estate taxes	468	442
Accrued utilities	193	241
Current portion of operating lease liabilities	47	74
Other	207	306
Total accrued expenses	<u>\$ 5,103</u>	<u>\$ 4,916</u>

Note 7 – Debt

Note payable consisted of the following:

	December 31, 2024	December 31, 2023
Term loan due August 18, 2026. Interest payable monthly.	\$ –	\$ 2,750
Unamortized deferred financing costs	–	(17)
Total note payable	–	2,733
Less current portion	–	(1,250)
Total long-term portion	<u>\$ –</u>	<u>\$ 1,483</u>

The Company paid the outstanding term loan balance of \$2,250 in full during the second quarter of 2024 and expensed the remaining unamortized deferred financing costs.

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 \$5,000 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 \$5,000 (the “Revolving Credit Facility”) and an incremental facility not to exceed \$5,000. 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%. Interest is 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 \$11,250, in each of the fiscal quarters ending through the expiration date. The Credit Agreement provides 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, 2024.

Revolving Credit Facility

As of December 31, 2024, 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, 2024.

See Footnote 15 – Subsequent Events, for the February 2025 credit agreement amendment which increased the revolving loan commitment from \$5,000 to \$25,000.

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 \$148 and \$138 (including short term leases) for the years ended December 31, 2024 and 2023, respectively.

Future maturities of lease liabilities were as follows:

Year	Operating Leases
2025	\$ 54
2026	31
2027	21
2028	17
2029	10
Thereafter	0
Total lease payments	133
Less: Interest	(16)
Present value of lease liabilities	\$ 117

The weighted-average remaining lease term for its operating leases was 3.4 years as of December 31, 2024. The weighted average discount rate of its operating leases was 8.51% as of December 31, 2024. Cash paid for amounts included in the measurement of lease liabilities was \$89 and \$94 for the year ended December 31, 2024 and 2023, 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,	
	2024	2023
Current:		
Federal	\$ 3,371	\$ 3,591
State and local	1,512	1,719
Total current	4,883	5,310
Deferred	61	(28)
Provision for income taxes	\$ 4,944	\$ 5,282

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:

	2024		2023	
	Amount	Percentage	Amount	Percentage
Federal income tax at statutory rate	\$ 2,933	21.0%	\$ 3,496	21.0%
State and local tax, net	737	5.3%	1,126	6.8%
Other permanent differences	29	0.2%	17	0.1%
Section 162m	1,074	7.7%	435	2.6%
Stock based compensation	167	1.2%	203	1.2%
Change in tax rates	2	0.0%	5	0.0%
Other	2	0.0%	–	–%
Provision for income taxes	\$ 4,944	35.4%	\$ 5,282	31.7%

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

	December 31,	
	2024	2023
Deferred tax liabilities attributable to:		
Accumulated depreciation and amortization	\$ (3,829)	\$ (3,519)
Unrealized gains	(467)	(469)
Total deferred tax liabilities	(4,296)	(3,988)
Deferred tax assets attributable to:		
Net operating losses	6	6
Accrued compensation	454	403
Incentive compensation	499	301
Inventory	279	280
Allowances for doubtful accounts and discounts	2	3
Other	(6)	(6)
Total net deferred tax assets	1,234	987
Net deferred tax liabilities	\$ (3,062)	\$ (3,001)

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
		<u>\$ 6</u>	

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 2021 and subsequent federal and state tax years remain open by statute. As of December 31, 2024, the unrecognized tax benefit is \$0.

The amount of interest and penalties recognized in the consolidated statements of operations was \$0 during 2024 and 2023, respectively. The amount of accrued interest and penalties recognized in the consolidated balance sheets was \$0 at December 31, 2024 and 2023, 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. At December 31, 2024, 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, 2024, 2.64 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, 2024:

	Options (In thousands)	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding at December 31, 2023	41	\$ 10.42	2.21	\$ 121
Granted	—	—	—	—
Exercised	(11)	10.41	—	—
Forfeited	—	—	—	—
Outstanding at December 31, 2024	<u>30</u>	10.42	1.21	426
Exercisable at December 31, 2024	<u>30</u>	10.42	1.21	426

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, 2024.

	Restricted Stock Units (In thousands)	Weighted Average Grant Date Fair Value
Nonvested, at December 31, 2023	207	\$ 6.89
Granted	57	13.12
Shares issued upon vesting	(74)	6.84
Forfeited	—	—
Nonvested, at December 31, 2024	<u>190</u>	<u>8.77</u>
Earned and deferred, at December 31, 2024	<u>71</u>	<u>7.56</u>

For the years ended December 31, 2024 and 2023 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was \$904 and \$506, respectively. For the years ended December 31, 2024 and 2023 tax-related benefits of \$253 and \$142, respectively, were also recognized. Future compensation expense related to nonvested restricted stock units was \$615 as of December 31, 2024 and will be recognized over a weighted-average period of 1.29 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, 2024 and 2023, \$24 and \$105 was expensed as stock-based compensation expense in the consolidated statements of operations. As of December 31, 2024, all stock-based compensation expense has been recognized.

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, 2024 and 2023, \$40 and \$194 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of December 31, 2024, all stock-based compensation expense has been recognized.

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, 2024, and 2023, \$542 and \$473 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of December 31, 2024, all stock-based compensation expense has been recognized.

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, 2024 and 2023, \$491 and \$219 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.

2024 Equity Award

Under the 2024 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 2024 to 2026. 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 64,986 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 \$13.73 per share. For the twelve months ended December 31, 2024 and 2023, \$445 and \$0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively.

The 2024 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 January 10, 2024 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, 2024, 393 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, 2024 and 2023 total contribution expense recognized in the consolidated statements of operations was \$650 and \$499, 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,	
	2024	2023
	(In thousands)	
Weighted average common shares outstanding	14,769	14,667
Assumed exercise/vesting of equity awards	361	436
Weighted average diluted common shares outstanding	<u>15,130</u>	<u>15,103</u>

Note 13 – Segment, Customer and Geographic Information

Segment Information

The Company has one reportable segment, which manufactures and distributes cultured dairy products. Our products are produced using the same processes and materials and are sold to consumers through a common network of distributors and retailers. The Company derives revenue primarily in North America and manages the business activities on a consolidated basis. The business activities include selling cultured dairy products across various channels including retail-direct, distributor, and direct store delivery in a refrigerated format. We operate our business with a centralized financial systems infrastructure, and we share centralized resources for procurement and general and administrative activities. The accounting policies of the segment are the same as those described in the Summary of Significant Accounting Policies for the Company. Refer to Note 1 for additional information.

The Chief Executive Officer (“CEO”) has been identified as our Chief Operating Decision Maker (“CODM”). The Company manages operations on a company-wide basis, thereby making determinations as to the allocation of resources as one segment. The CODM uses discrete financial information at the consolidated level to assess performance for the segment and decides how to allocate resources based on the Company's consolidated Net income (loss), which is reported on the Consolidated Statement of Operations. The measure of segment assets is reported on the Consolidated Balance Sheet as Total assets.

The following table summarizes the reported segment revenue, segment profit, and significant segment expenses for the years ended December 31, 2024 and 2023.

	<u>2024</u>	<u>2023</u>
Net sales	\$ 186,820	\$ 160,123
Cost of goods sold	135,400	115,060
Depreciation expense	2,846	2,622
Total cost of goods sold	<u>138,246</u>	<u>117,682</u>
Gross profit	48,574	42,441
Selling expenses	14,743	11,776
General and administrative	19,439	13,130
Amortization expense	540	540
Total operating expenses	34,722	25,446
Income from operations	13,852	16,995
Other income (expense):		
Interest expense	(105)	(384)
Gain (loss) on sale of property and equipment	(8)	34
Other income	230	4
Total other income (expense)	<u>117</u>	<u>(346)</u>
Income before provision for income taxes	13,969	16,649
Provision for income taxes	4,944	5,282
Net income	\$ 9,025	\$ 11,367

The following table summarizes the reported segment total assets as of December 31, 2024 and 2023.

	December 31,	
	2024	2023
Total assets for reportable segment	\$ 90,547	\$ 81,654
Adjustments and reconciling items	—	—
Consolidated total assets	<u>\$ 90,547</u>	<u>\$ 81,654</u>

Products from which the reportable segment derives its revenue

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:

In thousands	2024		2023	
	\$	%	\$	%
Drinkable Kefir other than ProBugs	153,493	82%	127,726	80%
Cheese	14,554	8%	13,781	9%
Cream and other	8,299	4%	7,382	4%
Drinkable Yogurt	5,619	3%	6,236	4%
ProBugs Kefir	3,421	2%	3,429	2%
Other dairy	1,434	1%	1,569	1%
Net Sales	<u>186,820</u>	<u>100%</u>	<u>160,123</u>	<u>100%</u>

Significant Customers

Sales are predominately to companies in the retail food industry located within the United States. Two major customers accounted for a total of 25% and 24% of net sales for the years ended December 31, 2024 and 2023, respectively. Two major customers accounted for a total of 26% and 25% of accounts receivable as of December 31, 2024 and 2023, respectively.

Geographic Information

Net sales outside the of the United States represented less than 1% of total consolidated net sales in 2024 and 2023, 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 – Shareholder Rights Plan

On November 4, 2024, the Company adopted a Shareholder Rights Agreement (the "Rights Agreement") and designated 40 shares of preferred stock as Series A Junior Participating Preferred Stock, none of which are issued or outstanding as of December 31, 2024. Pursuant to the Rights Agreement, the Company's board of directors declared a dividend of one preferred share purchase right (each a "Right") for each outstanding share of Company common stock to stockholders of record as of the close of business on November 18, 2024. Each Right entitles its holder, subject to the terms of the Rights Agreement, to purchase from the Company one one-thousandth of one share of Series A Junior Participating Preferred Stock, no par value, of the Company at an exercise price of \$130.00 per Right, subject to adjustment. Rights will attach to any shares of Company common stock that become outstanding after November 18, 2024 and prior to the earlier of the Distribution Time (as defined in the Rights Agreement) and the redemption or expiration of the Rights, and in certain other circumstances described in the Rights Agreement. The Right expires at the end of November 4, 2025, or earlier if exercised.

Note 15 – Subsequent Events

On February 5, 2025, the Company entered into the Fifth Modification to the Amended and Restated Loan and Security Agreement (the "Fifth Modification") with its current lender. The Fifth Modification, among other things, (i) increased the commitment for revolving loans under the Credit Agreement from \$5,000 to \$25,000, with interest payable at either the lender Base Rate (the Prime Rate minus 1.00%) or the SOFR plus 1.75%, (ii) extended the termination date of the Credit Agreement to February 5, 2028 and (iii) replaced the quarterly minimum working capital financial covenant with a financial covenant to maintain a maximum cash flow leverage ratio of no greater than 2.00 to 1.00 for each fiscal quarter commencing with the fiscal quarter ending March 31, 2025. The remaining material terms and conditions of the Credit Agreement remain substantially unchanged. The Company had no outstanding borrowings at the time of entry into the Fifth Modification.

On February 21, 2025, the Company's \$1,800 equity investment in Simple Mills was liquidated as a result of the sale of Simple Mills. The Company anticipates cash proceeds of approximately \$5,150, and to recognize a gain on the sale of investment of approximately \$3,350 during the first fiscal quarter of 2025.

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, 2024 (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, 2024 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, 2024. 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, 2024.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during 2024 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, 2024, 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

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.

Code of Conduct and Code of Ethics

We have adopted a Code of Conduct applicable to all members of the Board, executive officers, and employees and a Code of Ethics applicable to all members of the Board and executive officers, including our principal executive officer and principal financial officer. The Code of Conduct and the Code of Ethics are available on our website at www.lifewaykefir.com. Information contained on the website is not incorporated by reference in, or considered part of, this proxy statement. We intend to disclose on our website any amendments to, or any waivers under, the Code of Ethics that are required to be disclosed by the rules of the SEC or Nasdaq.

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	Certificate of Designations of Series A Junior Participating Preferred Stock of Lifeway Foods, Inc., effective as of November 4, 2024	10-Q	9/30/2024	3.1	11/14/2024
3.3	Second Amended and Restated Bylaws	10-K	12/31/2022	3.1	3/27/2023
4.1	Description of Securities	Filed Herewith			
4.2	Shareholder Rights Agreement, dated as of November 4, 2024, by and between Lifeway Foods, Inc. and Computershare Trust Company, N.A., as rights agent	8-A		4.1	11/5/2024
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		10.11	10/12/1999
10.2**	Letter Agreement dated December 24, 1999 by and among Danone Foods, Inc., Lifeway Foods, Inc., Michael Smolyansky and certain other parties	8-K		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
10.4	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		10.1	5/11/2018
10.5	Employment Agreement by and between the Company and Amy Feldman, dated as of October 29, 2018	8-K		10.1	11/1/2018
10.6	Employment Agreement by and between the Company and Eric Hanson, dated as of January 18, 2019	8-K		10.1	1/23/2019
10.7	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
10.08	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		10.1	12/10/2019
10.09	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
10.10	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		10.1	8/20/2021
10.11	Fifth Modification to Amended and Restated Loan and Security Agreement, dated as of February 5, 2025, by and among Lifeway Foods, Inc., Fresh Made, Inc., Lifeway Wisconsin, Inc., and CIBC Bank USA, as Lender	8-K		10.1	2/7/2025
10.12+	Lifeway Foods, Inc. Omnibus Incentive Plan	8-K		10.2	12/18/2015
10.13+	Notice of Restricted Stock Unit Award	8-K		10.3	12/18/2015
10.14+	Notice of Performance Unit Award	8-K		10.4	12/18/2015
10.15+	Notice of Restricted Stock Award	8-K		10.5	12/18/2015
10.16+	Notice of Non-Qualified Stock Option Award	8-K		10.6	12/18/2015
10.17	Settlement Agreement dated as of July 27, 2022, between the Company and Edward Smolyansky and Ludmila Smolyansky.	8-K		10.1	7/29/2022
10.18	Amendment to Settlement Agreement dated as of July 27, 2022, between the Company and Edward Smolyansky and Ludmila Smolyansky.	10-K		10.20	3/27/2023
10.19+	Lifeway Foods, Inc. 2022 Omnibus Incentive Plan	8-K		10.1	9/2/2022
10.20+	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
10.21+	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
10.22+	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
10.23+	Lifeway Foods, Inc. 2022 2022 Non-Employee Director Equity and Deferred Compensation Plan	8-K		10.2	9/2/2022
10.24+	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
10.25+	First Amendment to the 2022 Non-Employee Director Equity and Deferred Compensation Plan	10-Q	6/30/2024	10.1	8/13/2024
10.26+	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	3/27/2023
10.27+	Amended and Restated Employment Agreement, dated as of December 23, 2024, by and between the Company and Julie Smolyansky	8-K		10.1	12/23/2024
10.28+	Retention Bonus Agreement, dated as of December 23, 2024, by and between the Company and Julie Smolyansky	8-K		10.2	12/23/2024
19.1	Lifeway Foods, Inc. Policy on Insider Trading	Filed Herewith			
21	List of Subsidiaries of the Registrant				
23.1	Consent of Grant Thornton LLP	Filed Herewith			
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)				
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				
97	Lifeway Foods, Inc. Incentive Compensation Clawback Policy	Filed Herewith			
99.1*	Press release dated March 14, 2025 reporting the Company's financial results for year ended December 31, 2024.				
101*	The following financial statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2024, 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.

** The Company believes this agreement is null and void but has included it in this Exhibit List for completeness.

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 14, 2025

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

Date: March 14, 2025

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

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each individual whose signature appears below hereby constitutes and appoints Julie Smolyansky and Eric Hanson, and each of them individually, his or her true and lawful agent, proxy and attorney-in-fact, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to (i) act on, sign and file with the Securities and Exchange Commission any and all amendments to this Report together with all schedules and exhibits thereto, (ii) act on, sign and file with the Securities and Exchange Commission any and all exhibits to this Report and any and all exhibits and schedules thereto, (iii) act on, sign and file any and all such certificates, notices, communications, reports, instruments, agreements and other documents as may be necessary or appropriate in connection therewith and (iv) take any and all such actions which may be necessary or appropriate in connection therewith, granting unto such agents, proxies and attorneys-in-fact, and each of them individually, full power and authority to do and perform each and every act and thing necessary or appropriate to be done, as fully for all intents and purposes as he or she might or could do in person, and hereby approving, ratifying and confirming all that such agents, proxies and attorneys-in-fact, any of them or any of his, her or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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 14, 2025

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

Date: March 14, 2025

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

Date: March 14, 2025

/s/ Jason Scher
Jason Scher
Director

Date: March 14, 2025

/s/ Pol Sikar
Pol Sikar
Director

Date: March 14, 2025

/s/ Jody Levy
Jody Levy
Director

Date: March 14, 2025

/s/ Dorri McWhorter
Dorri McWhorter
Director

Date: March 14, 2025

/s/ Juan Carlos Dalto
Juan Carlos Dalto
Director

Date: March 14, 2025

/s/ Perfecto Sanchez

Perfecto Sanchez

Director

Exhibit 4.1

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

Lifeway Foods, Inc. ("**Lifeway**," "**we**," "**us**" or "**our**") has two classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"): our common stock, no par value ("**Common Stock**"), and the rights (each, a "**Right**" and, collectively, the "**Rights**") to purchase from Lifeway one one-thousandth of one share of Series A Junior Participating Preferred Stock, no par value ("**Series A Preferred Stock**"), on the terms and subject to the conditions set forth in that certain Shareholder Rights Agreement (the "**Shareholder Rights Agreement**"), dated as of November 4, 2024, by and between Lifeway and Computershare Trust Company, N.A., as rights agent (including any successor agent, the "**Rights Agent**"). The following summary of the material terms of our capital stock is not meant to be complete and is qualified by reference to Lifeway's Articles of Incorporation, as amended (our "**Articles of Incorporation**"), Lifeway's Second Amended and Restated By-Laws (our "**By-Laws**"), the Shareholder Rights Agreement and the Stockholders' Agreement, dated as of October 1, 1999 (as amended, the "**Shareholder Agreement**"), by and among Danone North America PBC (collectively with Danone Foods, Inc. and any successor or assignee thereof, "**Danone**"), Lifeway and the stockholder parties thereto (although Lifeway believes that the Shareholder Agreement is invalid), each of which is attached as an exhibit to our Annual Report on Form 10-K, and to all applicable provisions of the Illinois Business Corporation Act, as amended (the "**IBC**A").

Authorized Capital Stock

Lifeway's authorized capital stock consists of 40,000,000 shares of Common Stock and 2,500,000 shares of preferred stock, no par value ("**Preferred Stock**"). Lifeway's board of directors (the "**Board**") is authorized, without further shareholder approval but subject to any limitations prescribed by law, to establish from time to time one or more series of Preferred Stock covering up to an aggregate of 2,500,000 shares of Preferred Stock, and to issue these shares of Preferred Stock in one or more series. Each series of Lifeway Preferred Stock will cover the number of shares and will have the relative rights and privileges as are determined by the Board, which may include, among others, dividend rights, liquidation preferences, voting powers, conversion rights and redemption rights. The Board may authorize the issuance of Preferred Stock with voting or conversion rights that could dilute the voting power or other rights of the holders of Common Stock. The issuance of Preferred Stock could also delay, defer or prevent a change of control of Lifeway or otherwise negatively affect the market price of Common Stock.

Common Stock

Voting and Other Rights. Each outstanding share of Common Stock is entitled to one vote in each matter submitted to a vote of shareholders. Shareholders do not have cumulative voting rights in director elections. Generally, any matter other than the election of directors to be decided by the shareholders will be decided by the affirmative vote of the majority of the shares present in person, by remote communication or represented by proxy and entitled to vote on such matter, except where a different standard is required by the IBCA, our Articles of Incorporation or our By-Laws. Each director is elected by the vote of the majority of the votes cast with respect to that director's election, provided that in a contested election, directors shall be elected by the vote of a plurality of the votes cast. A nominee in an uncontested election who does not receive a majority vote will not be elected, and an incumbent director not elected because he or she does not receive a majority vote will continue to serve as a holdover director until the earliest of (a) the date on which the Board either (i) appoints an individual to fill the office held by such director, (ii) by resolution, leaves the office vacant or (iii) by resolution, eliminates the directorship by reducing the number of directors; or (b) the date of the incumbent director's resignation. The rights, preferences and privileges of holders of Common Stock are subject to, and may be adversely affected by, the rights of holders of shares of any series of Preferred Stock that may be designated and issued at any time.

Dividend Rights; Rights upon Liquidation. Holders of Common Stock are entitled to receive dividends ratably, if any, as may be declared by the Board, out of legally available funds. Upon Lifeway's liquidation, dissolution or winding-up, holders of Common Stock are entitled to share ratably in all assets remaining after payment of Lifeway's debts and other liabilities, subject to the rights of holders of shares of any series of Preferred Stock that may be designated and issued at any time.

Other Rights. Holders of Common Stock currently have no pre-emptive, subscription or conversion rights. There are no sinking fund provisions or redemption provisions applicable to shares of Common Stock. Shares of Common Stock are not subject to calls or assessments. No personal liability will attach to holders of Common Stock under the laws of the State of Illinois (Lifeway's state of incorporation and the state in which Lifeway's principal place of business is located). The Board is not classified.

Rights to Purchase Preferred Stock

Rights. On November 4, 2024, in connection with the Shareholder Rights Agreement, the Board declared a dividend of one right (each, a “**Right**”), for each outstanding share of Common Stock, to shareholders of record at the close of business on November 18, 2024 (the “**Record Date**”). Each Right entitles its holder, subject to the terms of the Shareholder Rights Agreement, to purchase from Lifeway one one-thousandth of a share of Series A Preferred Stock of Lifeway at an exercise price of \$130.00 per Right, subject to adjustment.

The Rights attach to any shares of Common Stock that become outstanding after the Record Date and prior to the earlier of the Distribution Time (as defined below) and the Expiration Time (as defined below) and in certain other circumstances described in the Shareholder Rights Agreement.

Until the Distribution Time, the Rights are associated with Common Stock and evidenced by Common Stock certificates or, in the case of uncertificated shares of Common Stock, the book-entry account that evidences record ownership of such shares, which contains a notation incorporating the Shareholder Rights Agreement by reference, and the Rights are transferable with and only with the underlying shares of Common Stock.

Until the Distribution Time, the surrender for transfer of any shares of Common Stock will also constitute the transfer of the Rights associated with those shares. As soon as practicable after the Distribution Time, separate rights certificates will be mailed to holders of record of Common Stock as of the Distribution Time. From and after the Distribution Time, the separate rights certificates alone will represent the Rights.

The Rights are not exercisable until the Distribution Time. Until a Right is exercised, its holder will have no rights as a shareholder of Lifeway, including the right to vote or to receive dividends.

Separation and Distribution of Rights; Exercisability. Subject to certain exceptions, the Rights become exercisable and trade separately from Common Stock only upon the “**Distribution Time**,” which occurs upon the earlier of:

- the close of business on the tenth (10th) day after the “**Stock Acquisition Date**” (which is defined as (a) the first date of public announcement that any person or group has become an “**Acquiring Person**,” which is defined as a person or group that, together with its affiliates and associates, beneficially owns 20.0% or more of the outstanding shares of Common Stock (with certain exceptions, including those described below) or (b) such other date, as determined by the Board, on which a person or group has become an Acquiring Person); or
- the close of business on the tenth (10th) business day (or such later date as may be determined by the Board prior to such time as any person or group becomes an Acquiring Person) after the commencement of a tender offer or exchange offer that, if consummated, would result in a person or group becoming an Acquiring Person.

An Acquiring Person does not include:

- Lifeway or any subsidiary of Lifeway;
- any officer, director or employee of Lifeway or any subsidiary of Lifeway in his or her capacity as such;
- any employee benefit plan of Lifeway or of any subsidiary of Lifeway or any entity or trustee holding (or acting in a fiduciary capacity in respect of) shares of capital stock of Lifeway for or pursuant to the terms of any such plan or for the purpose of funding other employee benefits for employees of Lifeway or any subsidiary of Lifeway; or
- any person or group that, together with its affiliates and associates, as of immediately prior to the first public announcement of the adoption of the Shareholder Rights Agreement, beneficially owns 20.0% or more of the outstanding shares of Common Stock, so long as such person or group continues to beneficially own at least 20.0% of the outstanding shares of Common Stock and does not acquire shares of Common Stock to beneficially own an amount equal to or greater than the greater of (a) 20.0% and (b) the sum of the lowest beneficial ownership of such person or group since the public announcement of the adoption of the Shareholder Rights Agreement plus one share of Common Stock.

In addition, the Shareholder Rights Agreement provides that no person or group will become an Acquiring Person as a result of security purchases or issuances directly from Lifeway or through an underwritten offering approved by the Board. Also, a person or group will not be an Acquiring Person if the Board determines that such person or group has become an Acquiring Person inadvertently and such person or group has already divested or divests as promptly as practicable a sufficient number of shares of Common Stock so that such person or group would no longer be an Acquiring Person.

Certain synthetic interests in securities created by derivative positions, whether or not such interests are considered to be ownership of the underlying Common Stock or are reportable for purposes of Regulation 13D of the Exchange Act, are treated as beneficial ownership of the number of shares of Common Stock equivalent to the economic exposure created by the derivative position, to the extent actual shares of Common Stock are directly or indirectly held by counterparties to the derivative contracts.

Expiration Time. The Rights will expire on the earliest to occur of (a) the close of business on November 4, 2025 (the “**Final Expiration Time**”), (b) the time at which the Rights are redeemed or exchanged by Lifeway (as described below) or (c) the closing of any merger or other acquisition transaction involving Lifeway pursuant to a merger or other acquisition agreement that has been approved by the Board before any person or group becomes an Acquiring Person (the earliest of (a), (b) and (c) being herein referred to as the “**Expiration Time**”).

Flip-in Event. In the event that any person or group (other than certain exempt persons) becomes an Acquiring Person (a “**Flip-in Event**”), each holder of a Right (other than such Acquiring Person, any of its affiliates or associates or certain transferees of such Acquiring Person or of any such affiliate or associate, whose Rights automatically become null and void) will have the right to receive, upon exercise, Common Stock having a value equal to two times the exercise price of the Right.

For example, at an exercise price of \$130.00 per Right, each Right not owned by an Acquiring Person (or by certain related parties) following a Flip-in Event would entitle its holder to purchase \$260.00 worth of Common Stock for \$130.00. Assuming that Common Stock had a per share value of \$32.50 at that time, the holder of each valid Right would be entitled to purchase eight shares of Common Stock for \$130.00.

To the extent that Lifeway cannot issue such shares of Common Stock as described above, each holder of a Right (other than such Acquiring Person, any of its affiliates or associates or certain transferees of such Acquiring Person or of any such affiliate or associate, whose Rights automatically become null and void) will have the right to receive, upon exercise, cash, a reduction in the exercise price, other equity securities of the Company, debt securities of the Company, other assets or any combination thereof having an aggregate value equivalent to the value of the shares of Common Stock that would have been issuable (as described above) less the exercise price of the Right.

Flip-over Event. In the event that, at any time following the Stock Acquisition Date, any of the following occurs (each, a “**Flip-over Event**”):

- Lifeway consolidates with, or merges with and into, any other entity, and Lifeway is not the continuing or surviving entity;
- any entity engages in a share exchange with or consolidates with, or merges with or into, Lifeway, and Lifeway is the continuing or surviving entity and, in connection with such share exchange, consolidation or merger, all or part of the outstanding shares of Common Stock are changed into or exchanged for stock or other securities of any other entity or cash or any other property; or
- Lifeway sells or otherwise transfers, in one transaction or a series of related transactions, 50.0% or more of Lifeway’s assets, cash flow or earning power,

each holder of a Right (except Rights which previously have been voided as described above) will have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the Right.

Preferred Stock Provisions. Each share of Series A Preferred Stock, if issued:

- will not be redeemable;
- will entitle the holder thereof, when, as and if declared, to quarterly dividend payments equal to the greater of \$1,000 per share and 1,000 times the amount of all cash dividends plus 1,000 times the amount of non-cash dividends or other distributions paid on one share of Common Stock;
- will entitle the holder thereof to receive \$1,000 plus accrued and unpaid dividends per share upon liquidation;
- will have the same voting power as 1,000 shares of Common Stock; and
- if shares of Common Stock are exchanged via merger, consolidation or a similar transaction, will entitle the holder thereof to a per share payment equal to the payment made on 1,000 shares of Common Stock.

Anti-dilution Adjustments. The exercise price payable, and the number of shares of Series A Preferred Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution:

- in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Series A Preferred Stock;
- if holders of the Series A Preferred Stock are granted certain rights, options or warrants to subscribe for Series A Preferred Stock or convertible securities at less than the current market price of the Series A Preferred Stock; or
- upon the distribution to holders of the Series A Preferred Stock of evidences of indebtedness or assets (excluding regular quarterly cash dividends) or of subscription rights or warrants (other than those referred to above).

With certain exceptions, no adjustment in the exercise price will be required until cumulative adjustments amount to at least 1.0% of the exercise price. No fractional shares of Series A Preferred Stock will be issued and, in lieu thereof, an adjustment in cash will be made based on the market price of the Series A Preferred Stock on the last trading day prior to the date of exercise.

Redemption; Exchange. At any time prior to the earlier of (i) such time as any person or group becomes an Acquiring Person or (ii) the Final Expiration Time, Lifeway may redeem the Rights in whole, but not in part, at a price of \$0.001 per Right (subject to adjustment and payable in cash, Common Stock or other consideration deemed appropriate by the Board). Immediately upon the action of the Board authorizing any redemption or at a later time as the Board may establish for the effectiveness of the redemption, the Rights will terminate and the only right of the holders of Rights will be to receive the redemption price.

At any time after any person or group becomes an Acquiring Person but before any Acquiring Person, together with all of its affiliates and associates, becomes the beneficial owner of 50.0% or more of the outstanding shares of Common Stock, Lifeway may exchange the Rights (other than Rights owned by the Acquiring Person, any of its affiliates or associates or certain transferees of the Acquiring Person or of any such affiliate or associate, whose Rights will have become null and void), in whole or in part, at an exchange ratio of one share of Common Stock, or one one-thousandth of a share of Series A Preferred Stock (or of a share of a class or series of Preferred Stock having equivalent rights, preferences and privileges), per Right (subject to adjustment).

Amendment of the Shareholder Rights Agreement. Lifeway and the Rights Agent may from time to time amend or supplement the Shareholder Rights Agreement without the consent of the holders of the Rights. However, at or after such time as any person or group becomes an Acquiring Person, no amendment can materially adversely affect the interests of the holders of the Rights (other than the Acquiring Person, any of its affiliates or associates or certain transferees of the Acquiring Person or of any such affiliate or associate).

Anti-Takeover Provisions

Some provisions of the IBCA, our Articles of Incorporation, our By-Laws and the Shareholder Rights Agreement could make the following more difficult:

- acquisition of us by means of a tender offer, open market purchases or otherwise in a transaction not approved by the Board; or
- removal of our incumbent directors.

These provisions are designed to encourage persons seeking to acquire control of us to first negotiate with the Board. The summary of the provisions set forth below does not purport to be complete and is qualified in its entirety by reference to our Articles of Incorporation, our By-Laws, the Shareholder Rights Agreement Plan and the IBCA.

Advance Notice Requirements. Our By-Laws establish advance notice procedures with respect to shareholder proposals and the nomination of candidates for election as directors. In order for any matter to be “properly brought” before a meeting (other than a matter brought before a meeting in accordance with Rule 14a-8 under the Exchange Act), a shareholder will have to comply with advance notice requirements and provide Lifeway with certain information.

Illinois Law—Business Combinations with Interested Shareholders. Our Articles of Incorporation do not contain a provision expressly electing not to be governed by Section 11.75 of the IBCA. Section 11.75 of the IBCA generally prohibits certain “business combinations,” including certain mergers, sales and leases of assets and tender or exchange offers, by a corporation or certain subsidiaries with an interested shareholder who beneficially owns 15.0% or more of a corporation’s voting stock, within three years after the person or entity becomes an interested shareholder, unless:

- prior to such time, the board of directors of the corporation approved either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder;
- upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85.0% of the voting shares of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (i) by persons who are directors and also officers and (ii) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or subsequent to such time as the business combination is approved by the board of directors and authorized at an annual or special meeting of shareholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting shares that are not owned by the interested shareholder.

Illinois Law—Super-Majority Vote to Approve Mergers. Pursuant to Section 11.20, unless a separate class vote is required, a plan of merger, consolidation or share exchange must be approved by the affirmative vote of at least two-thirds of the votes of the shares entitled to vote on the plan.

Special Meetings of Shareholders. Our By-Laws provide that special meetings of the shareholders may be called by our President, our Board or the holders of not less than one-fifth of all outstanding shares entitled to vote for the purpose or purposes stated in the call of the meeting.

Undesignated Preferred Stock. The ability of the Board to issue shares of Preferred Stock without any action on the part of our shareholders may impede a takeover of us and prevent a transaction favorable to the holders of Common Stock.

Filling of Vacancies. Subject to the rights of holders of Preferred Stock, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board resulting from death, resignation, disqualification, removal or any other cause may be filled by the affirmative vote of a majority of the Board. However, if the Board does not fill a vacancy, such vacancy may be filled by election at the next annual or special meeting of shareholders. The Board also has the right to set the size of the Board so long as the number of directors is not fewer than three.

Shareholder Rights Agreement. The Shareholder Rights Agreement could have certain anti-takeover effects because the Rights provided to holders of our Common Stock under the Shareholder Rights Agreement will cause substantial dilution to an Acquiring Person in the event that an Acquiring Person acquires more than 20.0% of the outstanding shares of Common Stock pursuant to a transaction that has not been approved by the Board before any person or group becomes an Acquiring Person. Thus, the Shareholder Rights Agreement may deter current and future purchasers from accumulating more than 20.0% of the outstanding shares of Common Stock, which could delay or discourage takeover attempts that our shareholders may consider favorable.

Shareholder Agreement. Although Lifeway believes that the Shareholder Agreement is invalid, the Shareholder Agreement could have certain anti-takeover effects because it purports to provide Danone with the ability to block potential acquisitions or similar business transactions involving our securities that could benefit Lifeway and our shareholders. Sections 4.01 and 4.05 of the Shareholder Agreement provide Danone a right of first refusal with respect to transfers of Common Stock by certain shareholders and, with limited exceptions, the Company's issuance, sale or transfer of shares of Common Stock and other securities convertible into, or exercisable for, shares of Common Stock. Even if Danone does not exercise its right of first refusal, any prospective purchaser of Common Stock (whether pursuant to a share issuance or transfer by a shareholder party) cannot be "(x) engaged in the business of producing or selling any type of yogurt (set, blended or drinkable), or (y) engaged in the dairy business, the health food business or the business of producing or distributing food products containing pharmaceutical ingredients or any other business conducted by [Danone] and having consolidated revenues in excess of \$75 million" (as adjusted to account for changes in the Consumer Price Index). These provisions are not tied to Danone's ownership stake in Lifeway, and therefore purportedly enable Danone to thwart competition-enhancing transactions even if Danone no longer owns a single share of Common Stock.

Lifeway Foods, INC.

Policy on Insider Trading

As adopted by the Board of Directors

On August 12, 2024

This Insider Trading Policy describes the standards of Lifeway Foods and its subsidiaries (the “**Company**”) regarding trading in the stock and other securities of the Company while in possession of certain confidential information. This Policy is divided into three parts:

Part I provides a layman’s explanation of the policy and some general rules;

Part II prohibits trading in certain circumstances and applies to all directors, officers, employees and their respective immediate family members of the Company; and

Part III imposes special additional trading restrictions and applies to all (i) directors of the Company, (ii) executive officers of the Company; (iii) certain independent contractors defined in Part II and (iv) the employees listed on Appendix A.

PART I

One of the principal purposes of the federal securities laws is to prohibit so-called “insider trading.” Simply stated, insider trading isn’t about trading as much as it is about using the Company’s information for your own profit. More specifically, insider trading occurs when a person takes information that the public does not know (called “material nonpublic information”) that he or she learned through their involvement with the Company about the Company, its customers, suppliers, or others with which the Company does (or may do) business and (i) uses that information to make decisions to purchase, sell, give away, or otherwise trade the Company’s stock or securities or (ii) provides that information to others outside the Company. The prohibitions against insider trading apply to trades, tips, and recommendations by virtually any person, including all persons associated with the Company, if the information involved is “material” and “nonpublic.”

The terms “**Immediate Family**,” “**Material**” and “**Nonpublic**” are defined in this Policy under Part II, Section 3 below.

For purposes of this policy, a “trade” or “transaction” includes any purchase, sale, gift or similar exchange.

General Rules

The following General Rules are defined and governed more specifically by Part II and Part III:

1. **Don’t trade while in possession of material nonpublic information.**
2. **When in doubt about whether you have material nonpublic information, pre-clear your trades with the Company’s CFO (our designated Compliance Officer).**
3. **If you are a director or an officer, you should pre-clear all trades so that we can ensure that you do not violate federal law and that you make all proper disclosures.**

4. Don't give "tips" or otherwise share nonpublic information with others.
5. Discussing private Company information with the public, including with the press or analysts, with customers or suppliers, or online (including social media) could create substantial liability for you and the Company.
6. Don't engage in speculative transactions in the Company's stock.
7. Don't allow your immediate family members (or family trust administrators) to violate this policy.

PART II

1. Applicability

This Policy applies to all trading or other transactions in the Company's securities, including common stock, options and any other securities that the Company may issue, such as preferred stock, notes, bonds, and convertible securities, as well as to derivative securities relating to any of the Company's securities, even if not issued by the Company.

This Policy applies to (collectively referred to in this Policy as "you"):

- all officers of the Company, all members of the Company's board of directors and the employees of the Company as set forth on Appendix A (collectively, "**Pre-Clearance Persons**");
- all employees of the Company, all independent contractors of the Company and any other persons who have access to material nonpublic information about the Company (together with Pre-Clearance Persons, "**Covered Persons**");
- all persons (including but not limited to Immediate Family of Covered Persons) who reside with such Covered Persons;
- Immediate Family of Covered Persons who do not reside with such Covered Persons, but whose transactions in the Company's securities are (i) directed by such Covered Persons, and/or (ii) subject to the influence or control of such Covered Persons (such as parents or children who consult with such Covered Persons before they trade in the Company's securities); and
- as to each of the above persons, entities over which any such person above has influence or control (such as corporations, partnerships or trusts).

2. General Policy: No Trading or Causing Trading While in Possession of Material Nonpublic Information

(a) You may not purchase or sell, or offer to purchase or sell, any Company security, regardless of whether it is issued by the Company, while in possession of material nonpublic information about the Company. (The terms "material" and "nonpublic" are defined in Part II, Section 3(a) and (b) below.)

(b) You may not communicate any material nonpublic information about the Company to ("**tip**") any other person whatsoever, including Immediate Family and friends, or otherwise disclose such information without the Company's authorization. This includes giving trading advice. For example, "I am not going to share information with you, but I would sell those shares if I were you ..." is not compliance.

(c) No Covered Person may purchase or sell any security of any other company, regardless of whether it was issued by the Company, while in possession of material nonpublic information about that company that was obtained in the course of his or her involvement with the Company. No Covered Person who knows of any such material nonpublic information may tip any other person, including Immediate Family and friends, or otherwise disclose such information without the Company's authorization.

(d) For compliance purposes, you should never trade, tip, or recommend securities (or otherwise cause the purchase or sale of securities) while in possession of information that you have any reason to believe is material and nonpublic unless you first consult with, and obtain the advance approval of, the Compliance Officer (which is defined in Part II, Section 3(c) below).

(e) Pre-Clearance Persons must "pre-clear" all trading in securities of the Company in accordance with the procedures set forth in Part III, Section 3 below.

3. **Definitions**

(a) **Immediate Family** Means a person's spouse, parents, grandparents, children, grandchildren and siblings, including such relationships that arise through marriage or adoption.

(b) **Material** Insider trading restrictions come into play only if the information you possess is "material." Materiality, however, involves a relatively low threshold. Information is generally regarded as "material" if it has market significance, that is, if its public dissemination is likely to affect the market price of securities, or if it otherwise is information that a reasonable investor would want to know before making an investment decision.

Information dealing with the following subjects is reasonably likely to be found material in particular situations:

- (i) financial results and projections (including the Company's own expectations regarding its future financial results or how they differ from analysts' expectations);
- (ii) significant changes in the Company's prospects;
- (iii) significant write-downs in assets or increases in reserves;
- (iv) developments regarding significant litigation or government agency investigations;
- (v) liquidity problems;
- (vi) changes in earnings estimates or unusual gains or losses in major operations;
- (vii) major changes in management;
- (viii) changes in dividends;
- (ix) extraordinary borrowings;
- (x) award or loss of a significant contract;

- (xi) changes in debt ratings;
- (xii) proposals, plans or agreements, even if preliminary in nature, involving mergers, acquisitions, divestitures, recapitalizations, strategic alliances, licensing arrangements, or purchases or sales of substantial assets;
- (xiii) offerings of Company securities; and
- (xiv) pending statistical reports (such as, consumer price index, money supply and retail figures, or interest rate developments);
- (xv) stock splits;
- (xvi) Company share repurchases;
- (xvii) significant business trends and metrics; and
- (xviii) significant developments in products or services.

Either positive or negative information may be material. Material information is not limited to historical facts but may also include projections and forecasts. With respect to a future event, such as a merger, acquisition or introduction of a new product, the point at which negotiations or product development are determined to be material is determined by balancing the probability that the event will occur against the magnitude of the effect the event would have on a company's operations or stock price should it occur. Thus, information concerning an event that would have a large effect on stock price, such as a merger, may be material even if the possibility that the event will occur is relatively small. When in doubt about whether particular nonpublic information is material, you should presume it is material. **If you are unsure whether information is material, you should consult the Compliance Officer before making any decision to disclose such information (other than to persons who need to know it) or to trade in or recommend securities to which that information relates.**

(c) **Nonpublic** Insider trading prohibitions come into play only when you possess information that is material and "nonpublic." The fact that information has been disclosed to a few members of the public does not make it public for insider trading purposes. To be "public" the information must have been disseminated in a manner designed to reach investors generally, and the investors must be given the opportunity to absorb the information. Even after public disclosure of information about the Company, you must wait until after the close of business on the **second** trading day after the information was publicly disclosed before you can treat the information as public.

For clarity, examples of nonpublic information may include:

- (i) information available to a select group of analysts or brokers or institutional investors;
- (ii) undisclosed facts that are the subject of rumors, even if the rumors are widely circulated; and
- (iii) information that has been entrusted to the Company on a confidential basis until a public announcement of the information has been made and enough time has elapsed for the market to respond to a public announcement of the information (**two** trading days).

As with questions of materiality, if you are not sure whether information is considered public, you should either consult with the Compliance Officer or assume that the information is nonpublic and treat it as confidential.

(d) **Compliance Officer.** The Company has appointed the Chief Financial Officer as the Compliance Officer for this Policy. The duties of the Compliance Officer include, but are not limited to, the following:

- (i) assisting with implementation and enforcement of this Policy;
- (ii) circulating this Policy to all employees and ensuring that this Policy is amended as necessary to remain up-to-date with insider trading laws;
- (iii) pre-clearing all trading in securities of the Company by Pre-Clearance Persons in accordance with the procedures set forth in Part III, Section 3 below; and
- (iv) providing approval of any Rule 10b5-1 plans under Part III, Section 1(c) below and any prohibited transactions under Part III, Section 4 below.
- (v) providing a reporting system with an effective whistleblower protection mechanism.

4. **Violations of Insider Trading Laws**

Penalties for trading on or communicating material nonpublic information can be severe, both for individuals involved in such unlawful conduct and their employers and supervisors, and may include jail terms, criminal fines, civil penalties and civil enforcement injunctions. Given the severity of the potential penalties, compliance with this Policy is absolutely mandatory.

(a) **Legal Penalties.** A person who violates insider trading laws by engaging in transactions in a company's securities when he or she has material nonpublic information can be sentenced to a substantial jail term and required to pay a criminal penalty of several times the amount of profits gained or losses avoided.

In addition, a person who tips others may also be liable for transactions by the tippees to whom he or she has disclosed material nonpublic information. Tippees can be subject to the same penalties and sanctions as the tippees, and the SEC has imposed large penalties even when the tipper did not profit from the transaction.

The SEC can also seek substantial civil penalties from any person who, at the time of an insider trading violation, "directly or indirectly controlled the person who committed such violation," which would apply to the Company and/or management and supervisory personnel. These control persons may be held liable for up to the greater of \$1 million or three times the amount of the profits gained or losses avoided. Even for violations that result in a small or no profit, the SEC can seek penalties from a company and/or its management and supervisory personnel as control persons.

(b) **Company-imposed Penalties.** Covered Persons and other employees who violate this Policy may be subject to disciplinary action by the Audit and Corporate Governance Committee of the Board of Directors of the Company or any executive officer to whom the Audit and Corporate Governance Committee may delegate such authority, or, in the case of an independent director, the Board of Directors of the Company with such independent director abstaining from the disciplinary process. Disciplinary action may include, without limitation,:

- (i) ineligibility for future participation in the Company's equity incentive plans;
- (ii) forfeiture (including a requirement to return or pay over to the Company) of previously vested or paid equity, bonus or incentive compensation or realized gains on such equity compensation;

- (iii) forfeiture or loss of unvested, unearned or earned but unpaid equity, bonus or incentive compensation;
- (iv) non-receipt of or exclusion from future salary or wage increases or future awards of equity, bonus or incentive compensation;
- (v) required divestiture of the securities purchased in violation of this Policy with disgorgement to the Company of any profits of such disposition matched against any acquisitions within a six month period, additional sanctions or fines;
- (vi) elimination of or reduction in duties, responsibilities and authority, and concomitant reduction in salary or wages;
- (vii) receipt of a letter of reprimand or censure, with a copy filed in the personnel file; reassignment to a different work location, in the same or a different facility;
- (viii) reimbursement of the Company and third parties for all losses, damages, expenses or penalties incurred by the Company or third parties;
- (ix) dismissal for cause or exclusion of such person from nomination for election as director;
- (x) commencement of a lawsuit or other proceeding to recover damages or enjoin acts or omissions;
- (xi) referral of any matter to governmental or regulatory authorities, in the case of violations of this Policy that involve illegal behavior;
- (xii) and any other action that the Company deems necessary or appropriate.

Any exceptions to the Policy, if permitted, may only be granted by the Company's Audit and Corporate Governance Committee and must be provided in writing before any activity contrary to the above requirements takes place.

5. **Inquiries**

If you have any questions regarding any of the provisions of this Policy, please contact the Compliance Officer, Eric Hanson, erich@lifeway.net.

PART III

1. **Blackout Periods**

All Pre-Clearance Persons are prohibited from trading in the Company's securities during blackout periods as defined below. If you are **not** identified as a Pre-Clearance Person and you are **not** in possession of material non-public information, then you are not subject to the restrictions in this Part III.

(a) **Quarterly Blackout Periods.** Trading in the Company's securities is prohibited during the period beginning at the close of the market on the last day of the end of each fiscal quarter and ending at the close of business on the second trading day following the date the Company's financial results are publicly disclosed, so long as there is no material information or information in the subsequently filed Form 10-K or Form 10-Q that doesn't appear in the earnings release and Form 10 Q or Form 10 K is filed (the "**Quarterly Blackout Period**"). During these periods, Pre-Clearance Persons generally possess or are presumed to possess material nonpublic information about the Company's financial results.

(b) **Other Blackout Periods.** From time to time, other types of material nonpublic information regarding the Company (such as negotiation of mergers, acquisitions or dispositions or new product developments) may be pending and not be publicly disclosed. While such material nonpublic information is pending, the Company may impose **Special Blackout Periods** during which Pre-Clearance Persons are prohibited from trading in the Company’s securities. If the Company imposes a Special Blackout Period, it will notify the Pre-Clearance Persons affected. Notice of any special blackout period must be kept confidential, even among others in the Company.

(c) **Exception.** These trading restrictions do not apply to transactions under a preexisting written plan, contract, instruction, or arrangement (an “**Approved 10b5-1 Plan**”) that meets the applicable SEC rules and regulations, including without limitation, Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). Generally such plans:

- (i) Must be established in good faith at a time when the securityholder is not aware of any material nonpublic information about the Company;
- (ii) Must provide specific instructions as to amount, price and timing for the purchase or sale of Company securities;
- (iii) Must comply with the applicable “cooling off” period before trades can begin under the plan or alternatively could delegate investment discretion to an independent third party, such as a broker, who then makes trading decisions without further input from the securityholder;

Any Approved 10b5-1 Plan established by a Pre-Clearance Person must be reviewed and pre-approved by the Compliance Officer, and may be established only at a time when the Pre-Clearance Person is not subject to a blackout period.

All modifications and terminations of a Pre-Arranged Trading Plan by a Pre-Clearance Person must also be reviewed and pre-approved by the Compliance Officer.

2. **Trading Window**

Pre-Clearance Persons are permitted to trade in the Company’s securities when no blackout period is in effect (a “**Trading Window**”). Generally this means that Pre-Clearance Persons can trade during the period beginning on the day that one Quarterly Blackout Period ends until the next Quarterly Blackout Period begins. **However, even during this trading window, and even if you have received pre-approval for a transaction, you may not trade in the Company’s securities if you are in possession of any material nonpublic information until two trading days following the date that the information has been made publicly available or the information is no longer material.** In addition, the Company may close this trading window if it imposes a Special Blackout Period on Pre-Clearance Persons until such time as the Special Blackout Period ends.

3. **Pre-clearance of Securities Transactions**

(a) Because Pre-Clearance Persons are likely to obtain material nonpublic information on a regular basis, the Company requires all such persons to refrain from trading, even during a Trading Window, without first pre-clearing all transactions in the Company’s securities.

(b) Subject to the exemption in subsection (d) below, no Pre-Clearance Person may, directly or indirectly, purchase or sell (or otherwise make any transfer, gift or loan of) any Company security at any time without first obtaining prior written approval from the Compliance Officer. No Pre-Clearance Person may pledge any Company security as collateral for a loan at any time without first obtaining prior written approval from a majority of the Company's Board of Directors' disinterested independent directors; provided that no pledge of Company securities will be approved if the number of Company securities so pledged, when taken together in the aggregate with any other pledged Company securities of such Pre-Clearance Person, exceed the lesser of (x) ten percent (10%) of Company securities beneficially owned by such Pre-Clearance Person and (y) one percent (1%) of the then outstanding securities of the Company. These procedures also apply to transactions by:

(i) all persons (including but not limited to Immediate Family of such Pre-Clearance Person) who reside with such Pre-Clearance Person; and

(ii) entities over which any such person above has influence or control (such as corporations, partnerships or trusts).

(c) The Compliance Officer shall record the date each request is received and the date and time each request is approved or disapproved. Unless revoked, a grant of permission will normally remain valid until the close of trading two business days following the day on which it was granted. If the transaction does not occur during the two-day period, pre-clearance of the transaction must be re-requested.

(d) Pre-clearance is not required for purchases and sales of securities under an Approved 10b5-1 Plan. With respect to any purchase or sale under an Approved 10b5-1 Plan, the third party effecting transactions on behalf of you should be instructed to send duplicate confirmations of all such transactions to the Compliance Officer.

4. **Prohibited Transactions**

(a) Pre-Clearance Persons, which for purposes of this Section 4(a) shall include any person's spouse, minor children, other persons living in such person's household and entities over which such person exercises control, are prohibited from engaging in the following transactions in the Company's securities unless advance approval is obtained from the Company's Board of Directors:

(i) Short-term trading. Pre-Clearance Persons who purchase Company securities may not sell any Company securities of the same class for at least six months after the purchase;

(ii) Short sales. Pre-Clearance Persons may not sell the Company's securities short;

(iii) Options trading. Pre-Clearance Persons may not buy or sell puts or calls or other derivative securities on the Company's securities;

(iv) Trading on margin or pledging. Pre-Clearance Persons may not hold Company securities in a margin account or pledge Company securities as collateral for a loan; and

(v) Hedging. Pre-Clearance Persons may not enter into hedging or monetization transactions or similar arrangements with respect to Company securities.

5. **Prompt Reporting of Trades by Directors, Section 16 Officers and Subsidiary Executive Officers**

All directors, all employees of the Company that the Board has determined are officers of the Company under Section 16 of the Exchange Act (each, a “**Section 16 Officer**”) and executive officers of the Company’s subsidiaries are required to submit to the Compliance Officer a copy of any trade order or confirmation relating to the purchase or sale of Company securities, or information regarding any gift of Company securities, within one business day of any such transaction, including but not limited to transactions pursuant to an Approved 10b5-1 Plan. This information is necessary to enable the Company to monitor trading by directors, Section 16 Officers and executive officers of the Company’s subsidiaries and ensure that all such trades are properly reported to the SEC.

6. **Post-Termination Transactions**

This policy will continue to apply to you after your employment with the Company terminates or after you cease to provide services to the Company until such time as you are no longer aware of material nonpublic information. In addition, certain trades in Company Securities may be reportable by Section 16 Officers and Directors for up to six months following departure from the Company. For this reason, Section 16 Officers and directors should continue to notify the Company of any trades during this time.

7. **Acknowledgment and Certification.**

All Covered Persons are required to sign the attached acknowledgment and certification.

ACKNOWLEDGMENT AND CERTIFICATION

The undersigned does hereby acknowledge receipt of the Company’s Insider Trading Policy. The undersigned has read and understands (or has had explained) such Policy and agrees to be governed by such Policy at all times in connection with the purchase and sale of securities and the confidentiality of nonpublic information.

(Signature)

(Please print name)

Date:

APPENDIX A

The following persons (or persons holding the offices) below are “Pre-Clearance Persons” for purposes of this Policy as of August 12, 2024.

Members of the Board of Directors

Chief Executive Officer

Chief Financial Officer

Senior Executive Vice President, Sales

Section 16 Officers

Executive Officers under Rule 3b-7 of the Exchange Act

Legal department

All employees that prepare (or assist with preparing) Form 10-K and Form 10-Q reports

Company officers and employees that serve as members of the management disclosure committee

Corporate Controller

Assistant Controller

Vice President, Financial Planning & Analysis

Accounting Manager

Executive officers of the Company’s subsidiaries

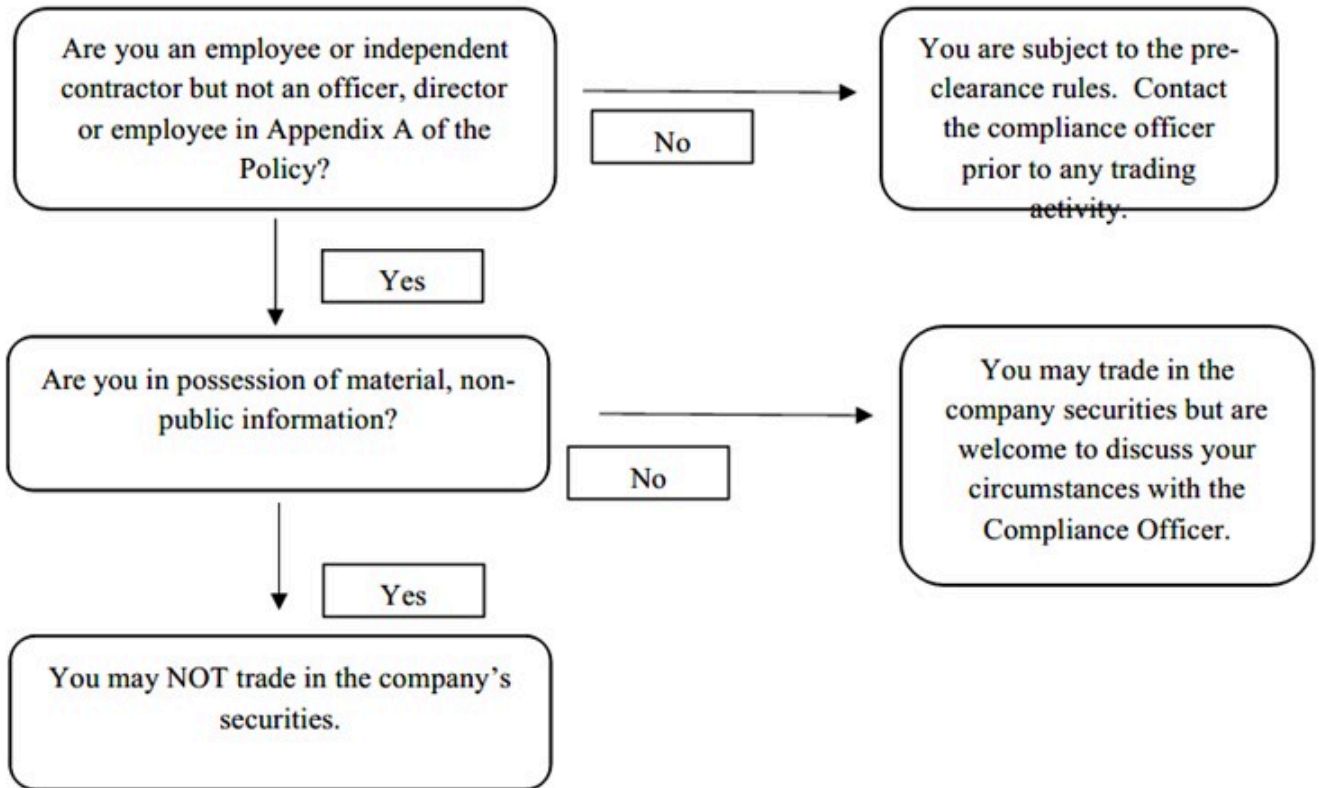


Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 14, 2025, 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, 2024. 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 14, 2025

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 14, 2025

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 14, 2025

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, 2024 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 14, 2025

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, 2024 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 14, 2025

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

Lifeway Foods, Inc. Incentive Compensation Clawback Policy

As adopted by the Board of Directors, effective November 9, 2023

Introduction

Pursuant to the requirements of Section 10D of the Securities Exchange Act of 1934, as amended, and Rule 10D-1 promulgated thereunder (collectively, “**Section 10D**”), the Board of Directors (the “**Board**”) of Lifeway Foods, Inc. (“**Lifeway**” or the “**Company**”) adopted this policy (“**Policy**”) which provides for the forfeiture and recoupment of certain executive compensation in the event of a required accounting restatement resulting from material noncompliance with financial reporting requirements under the federal securities laws. The Board further believes that it is in the best interests of the Company and its shareholders to create and maintain a culture that emphasizes integrity and accountability and that reinforces the Company’s pay-for-performance compensation philosophy, and as such, this Policy also allows for the Company to take remedial and recovery action where an employee has engaged in intentional misconduct that the Company determines contributed to the award or payment of incentive compensation in excess of that which would have been paid absent such misconduct.

Employees Covered by the Policy

This Policy applies to the Company’s current and former executive officers, as determined by the Board in accordance with Section 10D and the listing standards of the national securities exchange on which the Company’s securities are listed (the “**Listing Standards**”), as well as such other senior executives and employees who may from time to time be deemed subject to the Policy by the Board pursuant to Section 10D (“**Covered Officers**”).

Administration

This Policy shall be administered by the Board or, if so designated by the Board, the Compensation Committee of the Board (“**Committee**”), in which case references herein to the Board shall be deemed references to the Committee. Any determinations made by the Board shall be final and binding on all affected individuals.

Clawbacks Due to Accounting Restatements

In the event the Company is required to prepare an accounting restatement of its financial statements due to the Company’s material noncompliance with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period, the Board will require reimbursement or forfeiture of any excess Incentive Compensation received by any Covered Officer during the three completed fiscal years immediately preceding the date on which the Company is required to prepare an accounting restatement (or any transition period that results from a change in the Company’s fiscal year (as set forth in the Listing Standards)) as determined in accordance with Section 10D and any applicable rules or Listing Standards. The date on which the Company is required to prepare an accounting restatement is the earlier to occur of (A) the date the Board or a Board committee (or authorized officers of the Company if Board action is not required) concludes, or reasonably should have concluded, that the Company is required to prepare an accounting restatement or (B) the date a court, regulator, or other legally authorized body directs the Company to prepare an accounting restatement.

Incentive Compensation

For purposes of this Policy, “Incentive Compensation” means any compensation that is granted, earned, or vested based wholly or in part on the attainment of a “financial reporting measure” (as defined under Section 10D, and including, for the avoidance of doubt, stock price and total stockholder return (“**TSR**”) measures), including, but not limited to, performance-based cash, stock, options or other equity-based awards paid or granted to the Covered Officer. Compensation that is granted, vests or is earned based solely upon the occurrence of non-financial events, such as base salary, restricted stock or options with time-based vesting only, or a bonus awarded solely at the discretion of the Board and not based on the attainment of any financial measure, is not subject to this Policy.

Amounts Subject to Recovery

The amounts to be recovered pursuant to this Policy will be the excess of the Incentive Compensation received by the Covered Officer based on the erroneous data, over the Incentive Compensation that would have been received by the Covered Officer had it been based on the restated results, as determined by the Board and without regard to any taxes paid or withheld.

Incentive Compensation, for purposes of being subject to recoupment, will be deemed received in the fiscal period during which the financial reporting measure on which the Incentive Compensation is based is attained or purportedly attained, regardless of whether the Incentive Compensation is granted or paid after the end of that fiscal period.

For Incentive Compensation based on stock price or TSR, where the amount of erroneously awarded compensation is not subject to mathematical recalculation directly from the information in the financial restatement, the Board shall determine the amount to be recovered based on a reasonable estimate of the effect of the financial restatement on the stock price or TSR upon which the Incentive Compensation was received and the Company shall document the determination of that estimate and provide it to the national securities exchange on which the Company's securities are listed.

The compensation recouped under this Policy shall not include Incentive Compensation received by a Covered Officer (i) prior to beginning service as a Covered Officer or (ii) if he or she did not serve as a Covered Officer at any time during the performance period applicable to the Incentive Compensation in question.

Method of Recoupment

The Board will determine, in its sole discretion, the method for recouping Incentive Compensation hereunder, and such method shall be such that the excess compensation is corrected reasonably promptly, the recoupment is not permitted to be paid in installments, the recoupment is done on a gross, and not a net, basis, and the method used shall consider the implications of other relevant laws including, but not limited to, Section 409A of the Internal Revenue Code. Covered Officers shall be solely responsible for any tax consequences to them that result from the recoupment or recovery of any amount pursuant to this Policy, and the Company shall have no obligation to administer the Policy in a manner that avoids or minimizes any such tax consequences.

No Indemnification

The Company shall not indemnify any Covered Officers against the loss of any Incentive Compensation resulting from recoupment pursuant to this Policy, including paying premiums on an insurance policy that would cover a Covered Officer's Incentive Compensation reimbursement obligation or any claims relating to the Company's enforcement of rights under this Policy.

Interpretation

The Board is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy. This Policy shall be interpreted in a manner that is consistent with the requirements of Section 10D and any applicable rules or standards adopted by the Securities and Exchange Commission or any national securities exchange on which the Company's securities are listed and, to the extent this Policy is in any manner deemed inconsistent with such rules, this Policy shall be treated as retroactively amended to be compliant with such rules.

Amendment

The Board may amend this Policy from time to time in its discretion.

Other Recoupment Rights and Rules

The Board intends that this Policy will be applied to the fullest extent of the law. Each Covered Officer may be required to sign and return to the Company the acknowledgement form attached hereto as Exhibit A pursuant to which such Covered Officer will agree to be bound by the terms of, and comply with, this Policy. For the avoidance of doubt, each Covered Officer shall be fully bound by, and must comply with, the Policy, whether or not such Covered Officer has executed and returned such acknowledgment form to the Company. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other legal or equitable remedies or rights of recoupment that may be available to the Company, whether arising under applicable law (including pursuant to Section 304 of the Sarbanes-Oxley Act of 2002), regulation or pursuant to the terms of any policy of the Company, employment agreement, equity award agreement, or similar agreement.

The Board shall recover any excess Incentive Compensation in accordance with this Policy unless such recovery would be impracticable, as determined by the Board in accordance with Section 10D and the Listing Standards. In the event that the Board determines recovery to be impracticable, the Company shall comply with any related documentation requirements under Section 10D and the Listing Standards.

The Company shall comply with the disclosure requirements relating to Section 10D and any actions taken in compliance therewith as promulgated by the Securities and Exchange Commission and the Listing Standards.

No-Fault Recovery

Recoupment under this Policy shall be required regardless of whether the Covered Officer or any other person was at fault or responsible for accounting errors that contributed to the need for the financial restatement or engaged in any misconduct.

Additional Clawback Rights

In addition to all other provisions of this Policy, if a Covered Officer engages or has engaged in intentional misconduct that the Company determines, in its sole discretion, contributed to the award or payment of Incentive Compensation to them that is greater than would have been paid or awarded in the absence of the misconduct, Lifeway may take other remedial and recovery action, as determined by the Board to recover such excess amounts.

Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the Company.

Effective Date

This Policy has been adopted by the Board on November 9, 2023, and shall apply to any Incentive Compensation that is received by a Covered Officer on or after October 2, 2023. Any Incentive Compensation received by a Covered Officer prior to October 2, 2023 shall be subject to the Policy as then in effect.

Successors

This Policy shall be binding and enforceable against all Covered Officers and their beneficiaries, heirs, executors, administrators, or other legal representatives.

EXHIBIT A

DODD-FRANK COMPENSATION CLAWBACK POLICY

ACKNOWLEDGEMENT FORM

Capitalized terms used but not otherwise defined in this Acknowledgement Form (this “*Acknowledgement Form*”) shall have the meanings ascribed to such terms in the Policy.

By signing this Acknowledgement Form, the undersigned acknowledges, confirms and agrees that the undersigned: (i) has received and reviewed a copy of the Policy; (ii) is and will continue to be subject to the Policy and that the Policy will apply both during and after the undersigned’s employment with the Company; and (iii) will abide by the terms of the Policy, including, without limitation, by reasonably promptly returning any recoverable compensation to the Company as required by the Policy, as determined by the Compensation Committee in its sole discretion.

Sign: _____
Name: [Employee] _____
Date: _____

Lifeway Foods® Announces Strong Fourth Quarter and Record-Breaking Full Year 2024 Results

Company achieves 2024 net sales of \$186.8 million; up 17% year-over-year

21st consecutive quarter of year-over-year growth

Growing consumer interest in probiotic foods with bioavailable nutrients continues to drive strong demand for Lifeway products

Morton Grove, IL — March 14, 2025 — Lifeway Foods, Inc. (Nasdaq: LWAY) (“Lifeway” or “the Company”), a leading U.S. supplier of kefir and fermented probiotic products to support the microbiome, reported financial results for the fourth quarter and full year ended December 31, 2024.

“I am pleased to report another record year of net sales for Lifeway, spearheaded by the continued, strong volume growth of our flagship drinkable Lifeway Kefir,” commented Julie Smolyansky, President and Chief Executive Officer of Lifeway. “After an extremely successful year in 2023 where we saw sales grow by more than 13%, that growth accelerated in 2024 during which Lifeway delivered further year-over-year growth of 17% to achieve annual net sales of \$186.8 million. Our remarkable results were capped off by our second highest-ever quarterly net sales of \$46.9 million in the fourth quarter, marking our 21st consecutive quarter of year-over-year growth. This sustained performance underscores the loyalty of our expanding customer base, and the effectiveness of our sales and marketing strategies. We recognize the tailwind from growing consumer interest in protein-rich foods with probiotics and bioavailable nutrients and have meaningfully invested in our core branded offerings to drive trial and accelerate velocities to capture a greater share of that demand. We also regularly evaluate opportunities to elevate the presence of our key branded products through expanded distribution, and were thrilled to announce the recent incremental placements of our Lifeway Farmer Cheese and ProBugs with key accounts. The strategic focus on our branded Lifeway Kefir and Farmer Cheese has delivered robust growth and brand recognition in 2024, and propels us into 2025 with very strong momentum,” added Ms. Smolyansky.

Ms. Smolyansky continued, “The consumer focus on health and wellness continues to grow, and we remain focused on capitalizing on that heightened interest. As we build for the future, I’d like to celebrate the remarkable achievements our team has made in developing a state-of-the-art facility in Waukesha, Wisconsin. We are strategically investing this year to further boost our growth, and our scheduled upgrades at the Waukesha plant will almost double our production capacity and more than triple our bottling speed. We also expect to drive further operational efficiency across the business as we ship higher volumes of our products. To complement our improved production capabilities, we are accelerating our investments behind key product lines to further enhance our market leading position and broaden our brand awareness. 2024 was an excellent year for Lifeway, and I am confident that we are extremely well positioned to deliver another phenomenal performance in 2025.”

Full Year 2024 Results

Net sales were \$186.8 million for the year ended December 31, 2024, an increase of \$26.7 million or 16.7% versus prior year. The net sales increase was primarily driven by higher volumes of Lifeway’s branded drinkable kefir.

Gross profit as a percentage of net sales was 26.0% for the year ended December 31, 2024.

Selling, general and administrative expenses as a percentage of net sales were 18.3% for the year ended December 31, 2024.

The Company reported net income of \$9.0 million or \$0.61 per basic and \$0.60 per diluted common share for the year ended December 31, 2024.

We remain confident that the Company is on track to deliver Adjusted EBITDA¹ of \$45 - \$50mm in FY2027.

1. *Adjusted EBITDA is a non-GAAP financial measure. Adjusted EBITDA is defined as Operating Income, as reported, plus Depreciation and Amortization, plus Stock-Based Compensation.*

The Company does not provide guidance for GAAP Operating Income, nor a reconciliation of any forward-looking non-GAAP financial measures to the most directly comparable GAAP financial measures on a forward-looking basis, because it is unable to predict certain items contained in the GAAP measures without unreasonable efforts. These forward-looking non-GAAP financial measures do not include certain items, which may be significant, including, without limitation, non-recurring or non-operational expenses such as stock-based compensation, gain/loss on sale of equipment, deferred revenue and gain/loss on investments prior to payment of bonuses to employees.

Conference Call and Webcast

A webcast with Lifeway's President and Chief Executive Officer 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/>.

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, South Africa, United Arab Emirates, and France. Learn how Lifeway is good for more than just you at lifewayfoods.com.

Forward-Looking Statements

This press release contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 regarding, among other things, the drivers of demand for Lifeway's products, consumer trends, the anticipated effects of scheduled upgrades at the Waukesha plant, expected operating efficiencies and expectations regarding future operating and financial performance. These statements use words, and variations of words, such as "will," "continue," "future," "increase," "believe," "outlook," "expect," and "predict." You are cautioned not to rely on these forward-looking statements. These forward-looking statements are made as of the date of this press release, are based on current expectations of future events and thus are inherently subject to a number of risks and uncertainties, many of which involve factors or circumstances beyond Lifeway's control. 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; customer acceptance of products and services; and uncertainty regarding proposals or other actions taken by shareholders related to the unsolicited proposal made by Danone North America PBC ("Danone") to acquire all of the shares of Lifeway stock that Danone does not already own. 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, 2024 and Quarterly Report on Form 10-Q for the quarter ended September 30, 2024. Copies of these filings are available online at <https://www.sec.gov>, <http://lifewaykefir.com/investor-relations/>, or on request from Lifeway. Lifeway expressly disclaims any obligation to update any forward-looking statements (including, without limitation, to reflect changed assumptions, the occurrence of anticipated or unanticipated events or new information), except as required by law.

Non-GAAP Financial Measures

This press release refers to Adjusted EBITDA, which is a financial measure that has not been prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), and may exclude items that are significant to understanding and assessing financial results. This non-GAAP measure is provided to enhance investors' overall understanding of the Company's financial performance. Non-GAAP financial measures should be considered as supplements to GAAP measures reported, should not be considered replacements for, or superior to, GAAP measures reported and may not be comparable to similarly named measures used by other companies. The Company's calculation of non-GAAP financial measures may differ from methods used by other companies.

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LIFEWAY FOODS, INC. AND SUBSIDIARIES
Unaudited Consolidated Balance Sheets
December 31, 2024 and 2023
(In thousands)

	December 31,	
	2024	2023
Current assets		
Cash and cash equivalents	\$ 16,728	\$ 13,198
Accounts receivable, net of allowance for credit losses and discounts & allowances of \$1,590 and \$1,270 at December 31, 2024 and 2023, respectively	15,424	13,875
Inventories, net	8,678	9,104
Prepaid expenses and other current assets	2,144	2,019
Refundable income taxes	631	–
Total current assets	43,605	38,196
Property, plant and equipment, net	26,862	22,764
Operating lease right-of use asset	118	192
Goodwill	11,704	11,704
Intangible assets, net	6,358	6,898
Other assets	1,900	1,900
Total assets	\$ 90,547	\$ 81,654
Current liabilities		
Current portion of note payable	\$ –	\$ 1,250
Accounts payable	10,401	9,976
Accrued expenses	5,103	4,916
Accrued income taxes	–	474
Total current liabilities	15,504	16,616
Note payable	–	1,483
Operating lease liabilities	70	118
Deferred income taxes, net	3,062	3,001
Total liabilities	18,636	21,218
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; 15,100 and 14,691 shares outstanding at 2024 and 2023	6,509	6,509
Paid-in capital	4,632	4,825
Treasury stock, at cost	(14,052)	(16,695)
Retained earnings	74,822	65,797
Total stockholders' equity	71,911	60,436
Total liabilities and stockholders' equity	\$ 90,547	\$ 81,654

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Operations
For the three months and twelve months ended December 31, 2024 and 2023
(In thousands, except per share data)

	Three Months Ended December 31,		Twelve months Ended December 31,	
	2024	2023	2024	2023
Net sales	\$ 46,934	\$ 42,093	\$ 186,820	\$ 160,123
Cost of goods sold	34,273	29,632	135,400	115,060
Depreciation expense	764	669	2,846	2,622
Total cost of goods sold	35,037	30,301	138,246	117,682
Gross profit	11,897	11,792	48,574	42,441
Selling expenses	3,487	2,802	14,743	11,776
General and administrative	7,562	3,102	19,439	13,130
Amortization expense	135	135	540	540
Total operating expenses	11,184	6,039	34,722	25,446
Income from operations	713	5,753	13,852	16,995
Other income (expense):				
Interest expense	(3)	(62)	(105)	(384)
Gain (loss) on sale of property and equipment	(11)	1	(8)	34
Other income	77	5	230	4
Total other income (expense)	63	(56)	117	(346)
Income before provision for income taxes	776	5,697	13,969	16,649
Provision for income taxes	936	1,728	4,944	5,282
Net income (loss)	\$ (160)	\$ 3,969	\$ 9,025	\$ 11,367
Net earnings (loss) per common share:				
Basic	\$ (0.01)	\$ 0.27	\$ 0.61	\$ 0.77
Diluted	\$ (0.01)	\$ 0.26	\$ 0.60	\$ 0.75
Weighted average common shares outstanding:				
Basic	14,857	14,691	14,769	14,667
Diluted	15,060	15,174	14,956	15,103

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Cash Flows
For the Years Ended December 31, 2024 and 2023
(In thousands)

	2024	2023
Cash flows from operating activities:		
Net income	\$ 9,025	\$ 11,367
<i>Adjustments to reconcile net income to operating cash flow:</i>		
Depreciation and amortization	3,386	3,162
Non-cash interest expense	17	6
Bad debt expense	–	2
Stock-based compensation	2,446	1,497
Deferred income taxes	61	(28)
Loss (gain) on sale of property and equipment	8	(34)
<i>(Increase) decrease in operating assets:</i>		
Accounts receivable	(1,550)	(2,463)
Inventories	426	527
Prepaid expenses and other current assets	(125)	(574)
Refundable income taxes	(631)	44
<i>Increase (decrease) in operating liabilities:</i>		
Accounts payable	156	1,859
Accrued expenses	217	1,102
Accrued income taxes	(474)	474
Net cash provided by operating activities	12,962	16,941
Cash flows from investing activities:		
Purchases of property and equipment	(6,697)	(4,351)
Proceeds from sale of equipment	15	41
Purchase of investments	–	(100)
Net cash used in investing activities	(6,682)	(4,410)
Cash flows from financing activities:		
Repayment of line of credit	–	(2,777)
Repayment of note payable	(2,750)	(1,000)
Net cash used in financing activities	(2,750)	(3,777)
Net increase in cash and cash equivalents	3,530	8,754
Cash and cash equivalents at the beginning of the period	13,198	4,444
Cash and cash equivalents at the end of the period	\$ 16,728	\$ 13,198
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	\$ 5,987	\$ 4,792
Cash paid for interest	\$ 98	\$ 415
Non-cash investing activities		
Accrued purchase of property and equipment	\$ 407	\$ 137
Right-of-use assets obtained in exchange for lease obligations	\$ –	\$ 94