UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2022

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

For the transition period from __________ to __________

Commission File Number: 000-17363

LIFEWAY FOODS, INC.

(Exact name of registrant as specified in its charter)

Illinois	**36-3442829**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

6431 West Oakton, Morton Grove, IL 60053
(Address of principal executive offices, zip code)

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

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

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

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

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

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

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

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

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

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

Number of shares of Common Stock, no par value, outstanding as of November 9, 2022: 15,495,102.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2022 and December 31, 2021
(In thousands)

	September 30, 2022 Unaudited	December 31, 2021
Current assets		
Cash and cash equivalents	$ 8,933	$ 9,233
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of $1,400 and $1,170 at September 30, 2022 and December 31, 2021 respectively	11,507	9,930
Inventories, net	9,192	8,285
Prepaid expenses and other current assets	1,369	1,254
Refundable income taxes	653	344
Total current assets	**31,654**	**29,046**
Property, plant and equipment, net	20,905	20,130
Operating lease right-of-use asset	135	216
Goodwill	11,704	11,704
Intangible assets, net	7,573	7,978
Other assets	1,800	1,800
Total assets	**$ 73,771**	**$ 70,874**
Current liabilities		
Current portion of note payable	$ 1,000	$ 1,000
Accounts payable	9,119	6,614
Accrued expenses	4,378	3,724
Accrued income taxes	–	725
Total current liabilities	**14,497**	**12,063**
Line of credit	**2,777**	**2,777**
Note payable	**2,725**	**3,470**
Operating lease liabilities	**74**	**85**
Deferred income taxes, net	**3,201**	**3,201**
Other long-term liabilities	**–**	**147**
Total liabilities	**23,274**	**21,743**
Commitments and contingencies	–	–
Stockholders' equity		
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at September 30, 2022 and December 31, 2021	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 15,495 and 15,435 outstanding at September 30, 2022 and December 31, 2021, respectively	6,509	6,509
Paid-in capital	3,271	2,552
Treasury stock, at cost	(12,997)	(13,436)
Retained earnings	53,714	53,506
Total stockholders' equity	**50,497**	**49,131**
Total liabilities and stockholders' equity	**$ 73,771**	**$ 70,874**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the three and nine months ended September 30, 2022 and 2021
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine months Ended September 30, 2022	Nine months Ended September 30, 2021
Net sales	**$ 38,140**	**$ 29,553**	**$ 105,730**	**$ 88,091**
Cost of goods sold	29,962	21,915	85,032	63,273
Depreciation expense	590	645	1,833	2,099
Total cost of goods sold	30,552	22,560	86,865	65,372
Gross profit	**7,588**	**6,993**	**18,865**	**22,719**
Selling expenses	2,843	2,722	8,527	8,510
General and administrative	3,415	3,194	9,546	8,702
Amortization expense	135	33	405	33
Total operating expenses	**6,393**	**5,949**	**18,478**	**17,245**
Income from operations	**1,195**	**1,044**	**387**	**5,474**
Other income (expense):				
Interest expense	(77)	(30)	(171)	(72)
Gain on investments	–	–	–	2
Loss on sale of property and equipment	–	(5)	–	(88)
Other (expense) income, net	(5)	(2)	(10)	(61)
Total other income (expense)	(82)	(37)	(181)	(219)
Income before provision (benefit) for income taxes	**1,113**	**1,007**	**206**	**5,255**
Provision (benefit) for income taxes	130	527	(2)	1,851
Net income	**$ 983**	**$ 480**	**$ 208**	**$ 3,404**
Earnings (loss) per common share:				
Basic	$ 0.06	$ 0.03	$ 0.01	$ 0.22
Diluted	$ 0.06	$ 0.03	$ 0.01	$ 0.22
Weighted average common shares:				
Basic	15,490	15,473	15,462	15,572
Diluted	15,848	15,651	15,759	15,712

See accompanying notes to consolidated financial statements

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

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

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

	Common Stock						
	Issued		**In treasury**		**Paid-In**	**Retained**	**Total**
	Shares	**$**	**Shares**	**$**	**Capital**	**Earnings**	**Equity**
Balance, January 1, 2022	**17,274**	**$ 6,509**	**(1,839)**	**$ (13,436)**	**$ 2,552**	**$ 53,506**	**$ 49,131**
Stock-based compensation	–	–	–	–	109	–	109
Net loss	–	–	–	–	–	(895)	(895)
Balance, March 31, 2022	**17,274**	**$ 6,509**	**(1,839)**	**$ (13,436)**	**$ 2,661**	**$ 52,611**	**$ 48,345**
Issuance of common stock in connection with stock-based compensation	–	–	38	280	(399)	–	(119)
Stock-based compensation	–	–	–	–	746	–	746
Net income	–	–	–	–	–	120	120
Balance, June 30, 2022	**17,274**	**$ 6,509**	**(1,801)**	**$ (13,156)**	**$ 3,008**	**$ 52,731**	**$ 49,092**
Issuance of common stock in connection with stock-based compensation	–	–	22	159	(159)	–	–
Treasury stock purchased	–	–	–	–	–	–	-
Stock-based compensation	–	–	–	–	422	–	422
Net income	–	–	–	–	–	983	983
Balance, September 30, 2022	**17,274**	**$ 6,509**	**(1,779)**	**$ (12,997)**	$ 3,271	**$ 53,714**	**$ 50,497**

See accompanying notes to consolidated financial statements

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

	Nine months ended September 30,	
	2022	**2021**
Cash flows from operating activities:		
Net income	**$ 208**	**$ 3,404**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	2,238	2,132
Non-cash interest expense	5	9
Non-cash rent expense	–	1
Bad debt expense	–	6
Deferred revenue	(23)	(23)
Stock-based compensation	755	608
Loss on sale of property and equipment	–	88
(Increase) decrease in operating assets:		
Accounts receivable	(1,576)	(1,832)
Inventories	(907)	(642)
Refundable income taxes	(309)	(384)
Prepaid expenses and other current assets	(115)	(152)
Increase (decrease) in operating liabilities:		
Accounts payable	3,085	1,695
Accrued expenses	1,003	1,498
Accrued income taxes	(725)	(553)
Net cash provided by operating activities	**3,639**	**5,855**
Cash flows from investing activities:		
Purchases of property and equipment	(2,609)	(1,685)
Acquisition, net of cash acquired	(580)	(5,220)
Net cash used in investing activities	**(3,189)**	**(6,905)**
Cash flows from financing activities:		
Purchase of treasury stock	–	(1,583)
Payment of deferred financing cost	–	(25)
Proceeds from note payable	–	5,000
Repayment of note payable	(750)	(250)
Net cash used in financing activities	**(750)**	**3,142**
Net (decrease) increase in cash and cash equivalents	**(300)**	**2,092**
Cash and cash equivalents at the beginning of the period	9,233	7,926
Cash and cash equivalents at the end of the period	**$ 8,933**	**$ 10,018**
Supplemental cash flow information:		
Cash paid for income taxes, net	$ 640	$ 2,788
Cash paid for interest	$ 158	$ 60
Non-cash investing activities		
Increase (decrease) in right-of-use assets and operating lease obligations	$ 19	$ 45

See accompanying notes to consolidated financial statements

Note 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") for interim financial information, and do not include certain information and footnote disclosures required for complete, audited financial statements. In the opinion of management, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. The consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021. Results of operations for any interim period are not necessarily indicative of future or annual results.

Principles of consolidation

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

Restatement of Previously Issued Consolidated Financial Statements

As previously disclosed in Note 1 to the Company's consolidated financial statements included in the 2021 Form 10-K, the Company identified past errors in the accounting for deferred income tax liabilities and goodwill that resulted from a 2009 acquisition when preparing the 2021 consolidated financial statements. In the 2021 Form 10-K, the Company restated its historical consolidated financial statements to properly reflect the impact of the 2009 acquisition, which resulted in adjustments to goodwill and deferred income tax liabilities in the affected periods. The consolidated financial statements for the three and nine months ended September 30, 2021 included in this Quarterly Report on Form 10-Q have been similarly restated to reflect the correction of these errors and should be read in conjunction with Notes 1 and 17 to the Company's consolidated financial statements included in the 2021 Form 10-K.

Reclassification

Certain amounts have been reclassified from cash flows from investing to cash flows from operations on the consolidated statement of cash flows for the nine months ended September 31, 2021. This reclassification had no impact on the consolidated statements of operations, consolidated balance sheets, or consolidated statements of stockholders' equity. The Company determined the reclassification to be immaterial to the previously filed consolidated financial statements.

Note 2 – Summary of Significant Accounting Policies

A detailed description of our significant accounting policies can be found in the Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Use of estimates

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

Cash and cash equivalents

The Company has $0 of restricted cash which is included in cash and cash equivalents as of September 30, 2022. The restricted cash escrow funds of $580 were deposited by Lifeway in connection with the August 18, 2021 acquisition of certain assets of GlenOaks Farms, Inc. The funds were security for the liability and indemnity obligations of seller as defined under the asset purchase agreement. The escrow funds of $580 were remitted to the sellers in August 2022.

Advertising and promotional costs

Lifeway expenses advertising costs as incurred and is reported in Selling expense in the Company's consolidated statement of operations. Total advertising expense was $2,585 and $2,892 for the nine months ended September 30, 2022 and 2021, respectively. For the three months ended September 30, 2022 and 2021 total advertising expenses were $848 and $726, respectively.

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 by not yet effective

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The new guidance provides a single comprehensive accounting model on revenue recognition for contracts with customers and requires that the acquirer in a business combination recognize and measure contract assets and liabilities acquired in a business combination in accordance with Topic 606 (Revenue from Contracts with Customers). The amendments in this ASU are effective for fiscal years beginning after December 15, 2022. Early adoption is permitted, including adoption in an interim period. With early adoption, the amendments are applied retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of adoption and prospectively to all business combinations that occur on or after the date of initial application. Management is evaluating the impact of the new guidance and does not currently expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The new guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The guidance will be effective prospectively as of March 12, 2020 through December 31, 2022 and interim periods within those fiscal years. Management is evaluating the impact of the new guidance and does not currently expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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

Note 3 – Inventories, net

Inventories consisted of the following:

	September 30, 2022	December 31, 2021
Ingredients	$ 2,536	$ 2,279
Packaging	3,254	2,723
Finished goods	3,402	3,283
Total inventories	$ 9,192	$ 8,285

Note 4 – Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

	September 30, 2022	December 31, 2021
Land	$ 1,565	$ 1,565
Buildings and improvements	18,296	17,920
Machinery and equipment	32,733	32,073
Vehicles	640	640
Office equipment	936	900
Construction in process	1,894	417
	56,064	53,515
Less accumulated depreciation	(35,159)	(33,385)
Total property, plant and equipment, net	$ 20,905	$ 20,130

Note 5 – Goodwill and Intangible Assets

Goodwill

Goodwill consisted of the following:

	Total
Balance at December 31, 2021, before accumulated impairment loses	$ 12,948
Accumulated impairment losses	(1,244)
Balance at December 31, 2021	$ 11,704
Balance at September 30, 2022	$ 11,704

Intangible Assets

Other intangible assets, net consisted of the following:

	September 30, 2022			December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with finite lives:						
Recipes	$ 44	$ (44)	$ –	$ 44	$ (44)	$ –
Customer lists and other customer related intangibles	4,529	(4,529)	–	4,529	(4,529)	–
Customer relationship	3,385	(1,172)	2,213	3,385	(1,052)	2,333
Brand names	7,948	(2,588)	5,360	4,248	(2,303)	1,945
Formula	438	(438)	–	438	(438)	–
Total finite lived intangible assets	$ 16,344	$ (8,771)	$ 7,573	$ 12,644	$ (8,366)	$ 4,278
Intangible assets with indefinite lives:						
Brand names (1)	$ –	$ –	$ –	$ 3,700	$ –	$ 3,700
Total intangible assets	$ 16,344	$ (8,771)	$ 7,573	$ 16,344	$ (8,366)	$ 7,978

(1) During the fourth quarter of 2021, the Company completed an assessment of the useful life of its one indefinite-lived brand name intangible asset and determined that it should adjust the estimated useful life from an indefinite length to 15 years. The change in accounting estimate was effective January 1, 2022, at which time the Company began amortizing the intangible asset over 15 years. The cost and accumulated amortization is included in Brand Names in the intangible assets with finite lives in the table above as of January 1, 2022. The Company has reclassified the $3,700 net book value as of December 31, 2021 from goodwill to finite lived intangible assets to conform the presentation as of September 30, 2022.

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

Year	Amortization
Three months ended December 31, 2022	$ 135
2023	$ 540
2024	$ 540
2025	$ 540
2026	$ 540

Note 6 – Accrued Expenses

Accrued expenses consisted of the following:

	September 30, 2022	**December 31, 2021**
Payroll and incentive compensation	$ 3,438	$ 2,951
Real estate taxes	536	359
Current portion of operating lease liabilities	61	131
Other	343	283
Total accrued expenses	$ 4,378	$ 3,724

Note 7 – Debt

Note payable consisted of the following:

	September 30, 2022	December 31, 2021
Term loan due August 18, 2026. Interest (4.94% at September 30, 2022) payable monthly.	$ 3,750	$ 4,500
Unamortized deferred financing costs	(25)	(30)
Total note payable	3,725	4,470
Less current portion	(1,000)	(1,000)
Total long-term portion	$ 2,725	$ 3,470

The scheduled maturities of the term loan, excluding deferred financing costs, at September 30, 2022 are as follows:

Three months ended December 31, 2022	$ 250
2023	1,000
2024	1,000
2025	1,000
2026	500
Total term loan	$ 3,750

Credit Agreement

On August 18, 2021, Lifeway entered into the Fourth Modification (the "Fourth Modification") to the Amended and Restated Loan and Security Agreement (as amended and modified from time to time, the "Credit Agreement" and, as amended and modified by the Fourth Modification, the "Modified Credit Agreement") with its existing lender and certain of its subsidiaries. The Fourth Modification amends the Credit Agreement to provide for, among other things, a $5 million term loan by the existing lender to the borrowers to be repaid in quarterly installments of principal and interest over a term of five years (the "Term Loan"). The termination date of the Term Loan is August 18, 2026, unless earlier terminated. The Amended and Restated Loan and Security Agreement continues to provide Lifeway with a revolving line of credit up to a maximum of $5 million (the "Revolving Loan") and provides the Borrowers with an incremental facility not to exceed $5 million (the "Incremental Facility" and together with the Revolving Loan, the "Loans"). The Termination Date of the Revolving Loan was extended to June 30, 2025, unless earlier terminated.

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

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

Lifeway was in compliance with the fixed charge coverage ratio and minimum working capital covenants at September 30, 2022.

Revolving Credit Facility

As of September 30, 2022, the Company had $2,777 outstanding under the Revolving Credit Facility. The Company had $2,223 available for future borrowings under the Revolving Credit Facility as of September 30, 2022. Lifeway's interest rate on debt outstanding under the Revolving Credit Facility as of September 30, 2022 was 4.61%.

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 five years. Some of its leases include options to extend the leases for up to 5 years and have been included in our calculation of the right-of-use asset and lease liabilities. Lifeway includes only fixed payments for lease components in the measurement of the right-of-use asset and lease liability. Variable lease payments are those that vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time. There are no residual value guarantees. 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 obtain substantially all the economic benefits of the asset.

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 $191 and $245 (including short term leases) for the nine months ended September 30, 2022 and 2021, respectively. Total lease expense was $44 and $76 (including short term leases) for the three months ended September 30, 2022 and 2021, respectively.

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.

Future maturities of lease liabilities were as follows:

Year	Operating Leases
Three months ended December 31, 2022	$ 27
2023	63
2024	46
2025	22
2026	6
Thereafter	–
Total lease payments	164
Less: Interest	(29)
Present value of lease liabilities	$ 135

The weighted-average remaining lease term for its operating leases was 2.51 years as of September 30, 2022. The weighted average discount rate of its operating leases was 14.20% as of September 30, 2022. Cash paid for amounts included in the measurement of lease liabilities was $121 and $153 for the nine months ended September 30, 2022 and 2021, respectively. Cash paid for amounts included in the measurement of lease liabilities was $35 and $46 for the three months ended September 30, 2022 and 2021, 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

Income taxes were recognized at effective rates of (0.8)% and 35.2% for the nine months ended September 30, 2022 and 2021, respectively. The effective tax rate for the three months ended September 30, 2022 was 11.7% compared to 52.3% for the three months ended September 30, 2021.

The Company has historically calculated the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate for the full fiscal year income, excluding unusual or infrequently occurring discrete items, for the reporting period. In accordance with the authoritative guidance, the Company used a discrete effective tax rate method to calculate income taxes for the quarter and year to date periods ended March 31, 2022 and June 30, 2022 because small changes in the estimated level and mix of annual income or loss by jurisdiction would result in significant changes in the estimated annual effective tax rate making the historical method unreliable. During the quarter and year to date period ended September 30, 2022, the Company utilized an estimate of the annual effective tax rate for the full fiscal year income, excluding unusual or infrequently occurring discrete items, as small changes in the estimated level and mix of annual income or loss by jurisdiction would not result in significant changes in the estimated annual effective tax rate.

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 jurisdictional mix of earnings, enacted tax legislation, state income taxes, 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 and completed tax audits in the period in which they occur. The Company consistently reflects non-deductible officer compensation expense, non-deductible compensation expense related to equity incentive awards and separate state tax rates from period to period. Although similar items were reflected in 2022, the percentage effect is different due to the difference in pre-tax (loss) income in 2022 compared to 2021.

Unrecognized tax benefits were $0 and $98 at September 30, 2022 and 2021, respectively. The Company settled its one unrecognized tax benefit during the quarter ended March 31, 2022. The Company does not expect material changes to its unrecognized tax benefits during the next twelve months. However, the outcome of tax audits cannot be predicted with certainty. If a tax audit is resolved in a manner inconsistent with its expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

Note 11 – Stock-based and Other Compensation

Omnibus Incentive Plan

In December 2015, Lifeway stockholders approved the 2015 Omnibus Incentive Plan, which authorized the issuance of an aggregate of 3.5 million shares to satisfy awards of stock options, stock appreciation rights, unrestricted stock, restricted stock, restricted stock units, performance shares and performance units to qualifying employees. Under the Plan, the Board or its Audit and Corporate Governance Committee approves stock awards to executive officers and certain senior executives, generally in the form of restricted stock or performance shares. The number of performance shares that participants may earn depends on the extent to which the corresponding performance goals have been achieved. Stock awards generally vest over a three-year performance or service period. At September 30, 2022, 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 September 30, 2022, 3.00 million shares remain available to award under the 2022 Plan.

Stock Options

The following table summarizes stock option activity during the nine months ended September 30, 2022:

	Options		Weighted average exercise price	Weighted average remaining contractual life		Aggregate intrinsic value
Outstanding at December 31, 2021	41	$	10.42	4.22	$	–
Granted	–		–	–		–
Exercised	–		–	–		–
Forfeited	–		–	–		–
Outstanding at September 30, 2022	41	$	10.42	3.47	$	–
Exercisable at September 30, 2022	41	$	10.42	3.47	$	–

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

Restricted Stock Awards

A Restricted Stock Award ("RSA") represents the right to receive one share of common stock in the future. RSAs have no exercise price. The grant date fair value of the awards is determined by the Company's closing stock price on the grant date. Lifeway expenses RSAs over the vesting period. The following table summarizes RSA activity during the nine months ended September 30, 2022.

	Restricted Stock Awards		Weighted Average Grant Date Fair Value
Outstanding at December 31, 2021	94	$	4.50
Granted	97		6.25
Shares issued upon vesting	(27)		3.43
Forfeited	–		–
Outstanding at September 30, 2022	164	$	5.69
Vested and deferred at September 30, 2022	37	$	5.60

For the nine months ended September 30, 2022 and 2021 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $175 and $106, respectively. For the nine months ended September 30, 2022 and 2021 tax-related benefits of $49 and $31, respectively, were also recognized. For the three months ended September 30, 2022 and 2021 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $48 and $37, respectively. For the three months ended September 30, 2022 and 2021 tax-related benefits of $14 and $11, respectively, were also recognized. Future compensation expense related to restricted stock awards was $624 as of September 30, 2022 and will be recognized on a weighted average basis over the next 1.57 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 the fourth quarter 2020, Lifeway awarded a long-term equity-based incentive of $750 to its Chief Executive Officer (the "2020 CEO Award") depending on Lifeways 2020 performance levels compared to the respective targets. The equity-based incentive compensation is payable in restricted stock that vests one-third in April 2022, one-third in April 2023, and one-third in April 2024. The issuance of vested equity awards is subject to approval under the Stock Purchase Agreement dated October 1, 1999. For the nine months ended September 30, 2022 and 2021, $186 and $255 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2022 and 2021, $44 and $85 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of September 30, 2022, the total remaining unearned compensation was $173, of which $44 will be recognized in 2022, $105 in 2023, $24 in 2024, respectively, subject to vesting. During Q2 2021, the number of shares awarded became fixed and determinable. Therefore, the award liability was reclassified from long-term liabilities to paid in capital.

2021 Equity Award

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. For the nine months ended September 30, 2022 and 2021, $364 and $150 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2022 and 2021, $85 and $150 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of September 30, 2022, the total remaining unearned compensation was $319, of which $85 will be recognized in 2022, $194 in 2023, $40 in 2024, respectively, subject to vesting. During Q2 2022, the number of shares awarded became fixed and determinable. Therefore, the award liability was reclassified from long-term liabilities to paid in capital.

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 nine months ended September 30, 2022 and 2021, $31 and $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2022 and 2021, $31 and $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively.

The 2022 long-term incentive plan also granted restricted stock unit awards that contain only a service condition and vest on the passage of time in three equal installments on each of the first three anniversaries of the August 31, 2022 grant date. The stock based compensation expense for these awards is included in the Restricted Stock Award 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 September 30, 2022, 466 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, the Company matches employee contributions under a prescribed formula. For the nine months ended September 30, 2022 and 2021 total contribution expense recognized in the consolidated statements of operations was $328 and $315, respectively. For the three months ended September 30, 2022 and 2021, total contribution expense recognized in the consolidated statements of operations was $97.

Note 12 – Products and Customers

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 by product category were as follows for the nine months ended September 30:

	2022		2021	
	$	%	$	%
Drinkable Kefir other than ProBugs	$ 82,779	78%	$ 72,204	82%
Cheese	9,233	9%	9,158	11%
Cream and other	5,438	5%	2,568	3%
Drinkable yogurt	4,559	5%	739	1%
ProBugs Kefir	2,481	2%	2,197	2%
Other dairy	1,240	1%	1,225	1%
Net Sales	$ 105,730	100%	$ 88,091	100%

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

	2022		2021	
	$	%	$	%
Drinkable Kefir other than ProBugs	$ 30,297	79%	$ 23,831	81%
Cheese	3,211	9%	2,937	10%
Cream and other	1,874	5%	877	3%
Drinkable yogurt	1,482	4%	739	2%
ProBugs Kefir	882	2%	766	3%
Other dairy	394	1%	403	1%
Net Sales	$ 38,140	100%	$ 29,553	100%

Significant Customers – Sales are predominately to companies in the retail food industry located within the United States. Two major customers accounted for approximately 22% and 23% of net sales for the nine months ended September 30, 2022 and 2021, respectively. Two major customers accounted for approximately 23% of net sales for the three months ended September 30, 2022 and 2021.

Note 13 – Related Party Transactions

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

On January 4, 2022, the Company notified Ms. Smolyansky that it was terminating the Agreement effective January 17, 2022. Service fees earned are included in general and administrative expenses in the accompanying consolidated statements of operations and were $22 and $375 during each of the nine months ended September 30, 2022 and 2021, respectively. Service fees earned are included in general and administrative expenses in the accompanying consolidated statements of operations and were $0 and $125 during each of the three months ended September 30, 2022 and 2021, respectively.

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

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

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

Royalties earned are included in selling expenses in the accompanying consolidated statements of operations and were $400 and $450 during each of the nine months ended September 30, 2022 and 2021, respectively. Royalties earned were $100 and $150 during each of the three months ended September 30, 2022 and 2021, respectively.

Note 14 – Subsequent Events

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

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

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in this Form 10-Q is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements, the accompanying notes, and the MD&A included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (the "Form 10-K"). Unless otherwise specified, any description of "our", "we", and "us" in this MD&A refer to Lifeway Foods, Inc. and our subsidiaries.

Cautionary Statement Regarding Forward-Looking Statements

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

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

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

- The actions of our competitors and customers, including those related to price competition;
- The decisions of customers or consumers;
- Our ability to successfully implement our business strategy;
- Changes in the pricing of commodities;
- The effects of government regulation;
- The impact of the COVID-19 outbreak on our business, suppliers, consumers, customers, and employees;
- Disruptions to our supply chain, or our manufacturing and distribution capabilities, including those due to cybersecurity threats and the COVD-19 outbreak; and
- Such other factors as discussed throughout Part I, Item 1 "Business"; Part I, Item 1A "Risk Factors"; and Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2021 and that are described from time to time in our filings with the SEC.

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

Recent Developments

COVID-19 Pandemic Impact

We have seen increased customer and consumer demand for our products during the pandemic as consumers increased their food purchases for in-home consumption. 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 make and package our products, staffing, and transportation of our products to customers. This proactive planning has allowed the Company to avoid disruption to its manufacturing facilities and production, transportation, and sales and to meet the increased demand. The Company has maintained full production capacity available at all locations and does not anticipate manufacturing or staffing disruptions in the near term.

However, the COVID-19 pandemic, or any future pandemic, may limit the availability of, or increase the cost of, employees, ingredients, packaging and other inputs necessary to produce our products, and our operations may be negatively impacted. In 2022, our costs increased primarily due to inflationary price increases of milk, other ingredients, packaging materials, and transportation to our customers. However, because of market conditions or for competitive reasons, our pricing actions may sometimes 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.

During 2022, social distancing, shelter-in-place and work-from-home mandates and recommendations have continued to be reduced or eliminated. The increased customer demand for our products as consumers increased their at-home consumption and e-commerce purchasing during the COVID-19 pandemic may change or decrease due to the decrease in social distancing and stay-at-home and work-from-home mandates and recommendations. We are unable to predict the nature and timing of when such change may occur, if at all.

Results of Operations

Three Months Ended September 30, 2022 Compared to Three Months Ended September 30, 2021

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

	Three Months Ended September 30,			
	2022		2021	
	$	%	$	%
Net sales	38,140	100.0%	29,553	100.0%
Cost of goods sold	29,962	78.6%	21,915	74.1%
Depreciation expense	590	1.5%	645	2.2%
Total cost of goods sold	30,552	80.1%	22,560	76.3%
Gross profit	7,588	19.9%	6,993	23.7%
Selling expenses	2,843	7.4%	2,722	9.2%
General & administrative expenses	3,415	9.0%	3,194	10.9%
Amortization expense	135	0.4%	33	0.1%
Total operating expenses	**6,393**	**16.8%**	**5,949**	**20.2%**
Income from operations	**1,195**	**3.1%**	**1,044**	**3.5%**
Other (expense) income:				
Interest expense	(77)	(0.2%)	(30)	(0.1%)
Loss on sales or property and equipment	–	0.0%	(5)	0.0%
Other (expense) income, net	(5)	0.0%	(2)	0.0%
Total other (expense) income	(82)	(0.2%)	(37)	(0.1%)
Income before provision for income taxes	**1,113**	**2.9%**	**1,007**	**3.4%**
Provision for income taxes	130	0.3%	527	1.8%
Net income	**983**	**2.6%**	**480**	**1.6%**

Net Sales

Net sales finished at $38,140 for the three-month period ended September 30, 2022, an increase of $8,587 or 29.1% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir and the impact of price increases implemented during the first quarter of 2022, and to a lesser extent the favorable impact of our acquisition of GlenOaks Farms during the third quarter of 2021.

Gross Profit

Gross profit as a percentage of net sales was 19.9% during the three-month period ended September 30, 2022. Gross profit percentage was 23.7% in the prior year. The decrease versus the prior year was primarily due to the unfavorable impact of milk pricing, and to a lesser extent the increased pricing of freight and other inputs, partially offset by the decrease in depreciation expense. We expect to see continued pressure in milk pricing and other input costs during the fourth quarter of 2022.

Selling Expenses

Selling expenses increased by $121 to $2,843 during the three-month period ended September 30, 2022 from $2,722 during the same period in 2021.

General and Administrative Expenses

General and administrative expenses increased $221 to $3,415 during the three-month period ended September 30, 2022 from $3,194 during the same period in 2021. The increase is primarily a result of increased legal and professional fees, which includes expense related to the fiscal year 2020 Form 10-K restatement, and incentive compensation, partially offset by lower consulting expense to our former Chairperson of the Board of Directors.

Provision for Income Taxes

The provision for income taxes was $130 and $527 during the three months ended September 30, 2022 and 2021, respectively.

The effective income tax rate for the three months ended September 30, 2022 was 11.7% compared to 52.3% in the same period last year. The statutory Federal and state tax rates remained consistent from 2021 to 2022. The Company has items that are nondeductible or are discrete adjustments to tax expense. The Company consistently reflects non-deductible officer compensation expense, non-deductible compensation expense related to equity incentive awards and separate state tax rates from period to period. Although similar items were reflected in 2022, the percentage effect is different due to the difference in pre-tax (loss) income in 2022 compared to 2021.

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 jurisdictional mix of earnings, enacted tax legislation, state income taxes, 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 and completed tax audits in the period in which they occur.

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

Nine months Ended September 30, 2022 Compared to Nine months Ended September 30, 2021

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

	Nine months Ended September 30,			
	2022		2021	
	$	%	$	%
Net sales	105,730	100.0%	88,091	100.0%
Cost of goods sold	85,032	80.4%	63,273	71.8%
Depreciation expense	1,833	1.7%	2,099	2.4%
Total cost of goods sold	86,865	82.2%	65,372	74.2%
Gross profit	18,865	17.8%	22,719	25.8%
Selling expenses	8,527	8.1%	8,510	9.7%
General & administrative expenses	9,546	9.0%	8,702	9.9%
Amortization expense	405	0.4%	33	0.0%
Total operating expenses	18,478	**17.5%**	17,245	**19.6%**
Income from operations	**387**	**0.4%**	5,474	**6.2%**
Other (expense) income:				
Interest expense	(171)	(0.2%)	(72)	(0.1%)
Gain on investment	–		2	0.0%
Loss on sales or property and equipment	–	0.0%	(88)	(0.1%)
Other (expense) income, net	(10)	0.0%	(61)	0.0%
Total other (expense) income	(181)	(0.2%)	(219)	(0.2%)
Income before (benefit) provision for income taxes	**206**	**0.2%**	5,255	**6.0%**
(Benefit) provision for income taxes	(2)	0.0%	1,851	2.1%
Net income	**208**	**0.2%**	3,404	**3.9%**

Net Sales

Net sales finished at $105,730 for the nine-month period ended September 30, 2022, an increase of $17,639 or 20.0% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir and the impact of price increases implemented during the quarter, and to a lesser extent the favorable impact of our acquisition of GlenOaks Farms during the third quarter of 2021.

Gross Profit

Gross profit as a percentage of net sales was 17.8% during the nine-month period ended September 30, 2022. Gross profit percentage was 25.8% in the prior year. The decrease versus the prior year was primarily due to the unfavorable impact of milk pricing, and to a lesser extent the increased pricing of freight and other inputs, partially offset by the decrease in depreciation expense. We expect to see continued pressure in milk pricing and other input costs during the fiscal year 2022.

Selling Expenses

Selling expenses increased $17 to $8,527 during the nine-month period ended September 30, 2022 from $8,510 during the same period in 2021.

General and Administrative Expenses

General and administrative expenses increased $844 to $9,546 during the nine-month period ended September 30, 2022 from $8,702 during the same period in 2021. The increase is primarily a result of increased legal and professional fees, which includes expense related to the fiscal year 2020 Form 10-K restatement, and incentive compensation, partially offset by lower consulting expense to our former Chairperson of the Board of Directors.

Provision for Income Taxes

The provision for income taxes was $(2) and $1,851 during the nine months ended September 30, 2022 and 2021, respectively.

The effective income tax rate for the nine months ended September 30, 2022 was (0.8)% compared to 35.2% in the same period last year. The statutory Federal and state tax rates remained consistent from 2021 to 2022. The Company has items that are nondeductible or are discrete adjustments to tax expense. The Company consistently reflects non-deductible officer compensation expense, non-deductible compensation expense related to equity incentive awards and separate state tax rates from period to period. Although similar items were reflected in 2022, the percentage effect is different due to the difference in pre-tax (loss) income in 2022 compared to 2021.

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 jurisdictional mix of earnings, enacted tax legislation, state income taxes, 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 and completed tax audits in the period in which they occur.

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

Liquidity and Capital Resources

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

If additional borrowings are needed, $2,223 was available under the Revolving Credit Facility as of September 30, 2022 (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, in connection with the COVID-19 pandemic or other circumstances, 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' 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, in our Annual Report on Form 10-K).

Given the dynamic nature of COVID-19, we will continue to assess our liquidity needs while continuing to manage our discretionary spending and investment strategies. The ultimate impact that the COVID-19 pandemic or any future pandemic or disease outbreak will have on our business and our consolidated results of operations is uncertain.

Cash Flow

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

	Nine months Ended September 30,	
	2022	**2021**
Net cash provided by operating activities	$ 3,639	$ 5,855
Net cash used in investing activities	$ (3,189)	$ (6,905)
Net cash (used in) provided by financing activities	$ (750)	$ 3,142

Operating Activities

Net cash provided by operating activities was $3,639 during the nine-month period ended September 30, 2022 compared to $5,855 in the same period in 2021. The decrease was primarily due to lower cash earnings, which reflect the impact of input and freight cost inflation in 2022, and the change in working capital.

Investing Activities

Net cash used in investing activities was $3,189 during the nine-month period ended September 30, 2022 compared to $6,905 in the same period in 2021. The decrease in cash used reflects the August 2021 acquisition of GlenOaks Farms, Inc., partially offset by increased capital spending. Our capital spending is focused in three core areas: growth, cost reduction, and facility improvements. Growth capital spending supports new product innovation and enhancements. Cost reduction and facility improvements support manufacturing efficiency, safety, and productivity.

Financing Activities

Net cash used in financing activities was $750 during the nine-month period ended September 30, 2022 compared to net cash provided by financing activities of $3,142 in the same period in 2021. The decrease in cash used relates to the term loan entered into during August 2021 in connection with the acquisition of GlenOaks Farms, Inc., partially offset by the quarterly principal payments under the term loan.

Debt Obligations

As of September 30, 2022, the Company had $2,777 outstanding and $2,223 available for future borrowings under the revolving line of credit. Under the credit agreement, the Revolving Credit facility matures on June 30, 2025. The were no letters of credit issued or outstanding as of September 30, 2022.

The Company had $3,725 outstanding under the note payable, net of $25 of unamortized deferred financing fees, as of September 30, 2022.

The Company's interest rate on debt outstanding under the revolving line of credit and note payable as of September 30, 2022 was 4.61% and 4.94%, respectively.

The Company is in compliance with all applicable financial debt covenants as of September 30, 2022. See Note 7 to our Consolidated Financial Statements for additional information regarding our indebtedness and related agreements.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is provided in Note 2 – Summary of Significant Accounting Policies.

Critical Accounting Policies and Estimates

A description of the Company's critical accounting policies and estimates is contained in its Annual Report on Form 10-K for the year ended December 31, 2021. There were no material changes to the Company's critical accounting policies and estimates in the nine months ended September 30, 2022, except for the change in estimated useful life of one brand name intangible asset which is disclosed in Note 5 – Goodwill and Intangible assets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

The Company has established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission ("SEC"), and such information is accumulated and communicated to management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. Management, together with our CEO and CFO, evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2022. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2022.

Changes in Internal Control over Financial Reporting

As previously disclosed under "Item 9A—Controls and Procedures" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, we concluded that our internal control over financial reporting was not effective based on the material weakness identified.

Our remediation efforts were ongoing during the three months ended September 30, 2022. Remediation generally requires making changes to how controls are designed and implemented and then adhering to those changes for a sufficient period of time such that the effectiveness of those changes is demonstrated with an appropriate amount of consistency. We have continued to emphasize the importance of, and monitor the sustained compliance with, the execution of our internal controls over financial reporting. The Company has continued to work with its third-party service provider to ensure that our accounting and reporting for income taxes is accurate. If not remediated the deficiency could result in material misstatements to our consolidated financial statements.

Other than as described in the preceding paragraph, there have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended September 30, 2022 that has materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Information regarding legal preceding is available in Note 9, Commitment and Contingencies.

ITEM 1A. RISK FACTORS.

There have been no material changes from the risk factors disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

No.	Description	Form	Period Ending	Exhibit	Filing Date
10.1	Settlement Agreement dated as of July 27, 2022, between the Company and Edward Smolyansky and Ludmila Smolyansky	8-K	July 27, 2022	10.1	July 29, 2022
10.2	Lifeway Foods, Inc. 2022 Omnibus Incentive Plan	8-K	August 31, 2022	10.1	September 2, 2022
10.3	Lifeway Foods, Inc. 2022 2022 Non-Employee Director Equity and Deferred Compensation Plan	8-K	August 31, 2022	10.2	September 2, 2022
10.4	Settlement Agreement dated as of September 1, 2022, between the Company and Edward Smolyansky	8-K	September 6, 2022	10.1	September 13, 2022
10.5	Termination Agreement dated as of August 30, 2022, between the Company and Ludmila Smolyansky	8-K	September 6, 2022	10.2	September 13, 2022
10.6	Form of Notice of Restricted Stock Unit Award under the Lifeway Foods, Inc. 2022 Non-Employee Director Equity and Deferred Compensation Plan	Filed Herewith			
10.7	Form of Notice of Restricted Stock Unit Award under the Lifeway Foods, Inc. 2022 Omnibus Incentive Plan	Filed Herewith			
10.8	Form of Notice of Performance-Based Restricted Stock Unit Award under the 2022 Omnibus Incentive Plan	Filed Herewith			
31.1	Rule 13a-14(a)/15d-14(a) Certification of Julie Smolyansky	Filed Herewith			
31.2	Rule 13a-14(a)/15d-14(a) Certification of Eric Hanson	Filed Herewith			
32.1	Section 1350 Certification of Julie Smolyansky*	Furnished Herewith			
32.2	Section 1350 Certification of Eric Hanson*	Furnished Herewith			
99.1	Press release dated November 14, 2022 reporting Lifeway's financial results for the nine months ended September 30, 2022.*	Furnished Herewith			

101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in IXBRL, and included in exhibit 101).

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIFEWAY FOODS, INC.

Date: November 14, 2022

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

Date: November 14, 2022

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

EXHIBIT 10.6

NOTICE OF RESTRICTED STOCK UNIT AWARD

under the

LIFEWAY FOODS, INC. 2022 NON-EMPLOYEE DIRECTOR EQUITY AND DEFERRED COMPENSATION PLAN

This AWARD, made as of the ____ day of __________, 20__, by Lifeway Foods, Inc., an Illinois corporation (the "Company"), to ________________ ("Director"), is made pursuant to and subject to the provisions of the Lifeway Foods, Inc. 2022 Non-Employee Director Equity and Deferred Compensation Plan (the "Plan"). All terms that are used herein that are defined in the Plan shall have the same meanings given them in the Plan.

Contingent Restricted Stock Units

1. **Grant Date**. Pursuant to the Plan, the Company, on __________ ___, 20__ (the "Grant Date"), granted Director an incentive award ("Award") in the form of **(#) Restricted Stock Units**, subject to the terms and conditions of the Plan and subject to the terms and conditions set forth herein.

2. **Value**. The value of each Restricted Stock Unit on any date shall be equal to the value of one Share of the Company's common stock on such date; and the value of the Company's common stock is the Fair Market Value of the Shares (as defined in the Plan) on the relevant date.

Vesting of Restricted Stock Units

3. **Restrictions**. Except as otherwise provided herein, the Restricted Stock Units shall remain nonvested, nontransferable and subject to a substantial risk of forfeiture as provided in paragraph 8.

4. **Vesting**. Director's interest in the Restricted Stock Units shall become transferable and non-forfeitable ("Vested") as follows:

Date of Vesting	Number of Restricted Stock Units that will Vest
________________	___
________________	___
________________	___

5. **Death or Disability**. Paragraph 4 to the contrary notwithstanding, if Director dies or becomes Disabled while in service on the Company's Board of Directors (the "Board") and prior to the forfeiture of their Restricted Stock Units under Paragraph 8, Restricted Stock Units that are not then Vested shall become Vested as of the date of Director's death or of their becoming Disabled.

6. **Change in Control**. In the event of a Change in Control prior to the forfeiture of the Restricted Stock Units under paragraph 8, the provisions of this paragraph 6 shall apply in addition to the provisions of Section 6.7 (and related provisions) of the Plan.

   (a) Any Replacement Award made to the Director shall provide that if the Director is removed from the Board without Cause (as defined below), the non-Vested Replacement Award shall become immediately Vested at the time of the removal. The Administrator shall have the discretion to determine the terms of any Replacement Award in compliance with the Plan and applicable law.

(b) If, upon a Change in Control, the Company's Shares are no longer being traded on the NASDAQ or another established securities market and no Replacement Grant is granted to the Director, the non-Vested portion of the Restricted Stock Units shall become immediately Vested upon the Change in Control.

(c) Notwithstanding the provisions of subparagraph (a) hereof, in connection with a Change in Control where the Company's Shares continue to be traded on the NASDAQ or another established securities market and this Restricted Stock Unit Award remains in effect, if the Director is involuntarily removed from the Board without Cause, the non-Vested portion of this Restricted Stock Unit Award shall become immediately Vested at the time of the removal.

(d) For purposes of this Restricted Stock Unit Award, "Cause" shall mean removal from the Board due to a violation of Company policies or law, including, without limitation, the Company's Code of Conduct, Insider Trading Policy, or Corporate Governance Guidelines**.**

7. **Termination Due to Decision Not to Stand for Reelection**. In the event Director elects not to stand for reelection as a Director for the following Compensation Year, a pro rata portion of the non-Vested Restricted Stock Units shall Vest at the annual meeting at which their service as a Director Terminates. For the avoidance of doubt, if Director's service Terminates prior to such annual meeting for any reason, the Director shall not be entitled to pro-rata accelerated Vesting pursuant to this paragraph 7.

8. **Forfeiture**. All Restricted Stock Units that are not then Vested shall be forfeited if Director's service on the Board terminates for any reason other than pursuant to paragraph 4, 5, or 6 of this Restricted Stock Unit Award.

Payment of Awards

9. **Time and Form of Payment**. Director's Restricted Stock Units shall be paid out in whole Shares as soon as practicable after the Units have Vested, but in no event later than March 15^{th} of the calendar year after the year in which the Units Vest.

10. **Death of Director**. If Director dies prior to the payment of their Vested Restricted Stock Units, such Units shall be paid to their Beneficiary. Director shall have the right to designate a Beneficiary in accordance with procedures established under the Plan for such purpose. If Director fails to designate a Beneficiary, or if at the time of Director's death there is no surviving Beneficiary, any amounts payable will be paid to the Director's deemed Beneficiary pursuant to the terms of the Plan.

11. **Accounts**. Restricted Stock Units granted to Director shall be credited to an account (the "Account") established and maintained for Director. Director's Account shall be the record of Restricted Stock Units granted to Director under the Plan, is solely for accounting purposes and shall not require a segregation of any Company assets.

12. **No Right to Continued Board Service**. This Restricted Stock Unit Award shall not confer upon Director any right with respect to continuance of the Director's service on the Board.

13. **Change in Capital Structure**. In accordance with the terms of the Plan, the terms of this Restricted Stock Unit Award shall be adjusted as the Administrator determines is equitable in the event the Company effects one or more stock dividends, stock split-ups, subdivisions or consolidations of shares or other similar changes in capitalization.

14. **Governing Law**. This Restricted Stock Unit Award shall be governed by the laws of the State of Illinois and applicable Federal law. All disputes arising under this Restricted Stock Unit Award shall be adjudicated solely within the State or Federal courts located within the Northern District of the State of Illinois.

15. **Conflicts**. In the event of any conflict between the provisions of the Plan as in effect on the Grant Date and the provisions of this Restricted Stock Unit Award, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the Grant Date.

16. **Director Bound by Plan**. Director has been provided a copy of the Plan and shall be bound by all the terms and provisions thereof.

17. **Binding Effect**. Subject to the limitations stated above and in the Plan, this Restricted Stock Unit Award shall be binding upon and inure to the benefit of the legatees, distributees, and personal representatives of Director and the successors of the Company.

18. **Dividend Equivalents.** (a) If, prior to the payment of the Restricted Stock Units, the Company declares a cash or stock dividend on its Shares, then, on the payment date of the dividend, Director's Account shall be credited with Dividend Equivalents in an amount equal to the dividends that would have been paid to Director if one Share had been issued on the Grant Date for each Restricted Stock Unit granted to Director as set forth in this Restricted Stock Unit Award.

    (b) The Dividend Equivalents credited to Director's Account will be deemed to be reinvested in additional Restricted Stock Units (rounded to the nearest whole share) and will be subject to the same terms and conditions as the Restricted Stock Unit to which they are attributable and shall vest or be forfeited (if applicable) at the same time as the Restricted Stock Unit to which they are attributable. Such additional Restricted Stock Units shall also be credited with additional Restricted Stock Units as any further dividends are declared.

    (c) Dividend Equivalents shall be Vested and paid on the same date that the Restricted Stock Unit to which they are attributable are Vested and paid.

IN WITNESS WHEREOF, the Company has caused this Restricted Stock Unit Award to be signed on its behalf.

LIFEWAY FOODS, INC.

By: ________________________________
Name:
Title:

EXHIBIT 10.7

NOTICE OF RESTRICTED STOCK UNIT AWARD

under the

LIFEWAY FOODS, INC. 2022 OMNIBUS INCENTIVE PLAN

This AWARD, made as of the ___ day of __________, 20__, by Lifeway Foods, Inc., an Illinois corporation (the "Company"), to ____________________ ("Participant"), is made pursuant to and subject to the provisions of the Lifeway Foods, Inc. 2022 Omnibus Incentive Plan (the "Plan"). All terms that are used herein that are defined in the Plan shall have the same meanings given them in the Plan.

Contingent Restricted Stock Units

1. **Grant Date**. Pursuant to the Plan, the Company, on __________ ___, 20__ (the "Grant Date"), granted Participant an incentive award ("Award") in the form of **(#) Restricted Stock Units** ("Restricted Stock Units" or "RSUs"), subject to the terms and conditions of the Plan and subject to the terms and conditions set forth herein.

2. **Value**. The value of each RSU on any date shall be equal to the value of one Share of the Company's common stock on such date; and the value of the Company's common stock is the Fair Market Value of the Shares (as defined in the Plan) on the relevant date.

Vesting of Restricted Stock Units

3. **Restrictions**. Except as otherwise provided herein, the RSUs shall remain nonvested, nontransferable and subject to a substantial risk of forfeiture as provided in paragraph 7.

4. **Vesting**. Subject to Participant's continued employment with the Company (except as otherwise provided herein), Participant's interest in the RSUs shall become transferable and non-forfeitable ("Vested") as follows:

Date of Vesting	Number of Restricted Stock Units that will Vest
________________	___
________________	___
________________	___

5. *[**IF APPLICABLE** -- **Vesting Upon a Qualifying Termination Event.** (a) Paragraph 4 to the contrary notwithstanding, if prior to the forfeiture of this RSU Award under Paragraph 7, Participant experiences a Qualifying Termination Event (as defined in subparagraph (b)),*

*__ALTERNATIVE A__-- all RSUs that are forfeitable shall become fully Vested upon the Qualifying Termination Event. **OR***

ALTERNATIVE B-- *the portion of the RSUs that are forfeitable shall become Vested as to a pro rata portion of the unvested portion of the RSUs, as determined in accordance with the following sentence. The pro rata portion of the RSUs that shall Vest pursuant to the preceding sentence shall be equal to a fraction (not to exceed 1) of the total RSUs in each unvested Tranche of the RSUs where the numerator of such fraction shall be the number of full months of service performed by Participant after the Grant Date and prior to the Qualifying Termination Date, and the denominator of such fraction shall be determined in accordance with the following table:*

Tranche No.	*Denominator*

The non-Vested portion of the RSUs shall be forfeited.

(b) For purposes of this RSU Award Notice, Qualifying Termination Event shall mean the Participant's death, Disability, involuntary termination by the Company or an Affiliate other than for Cause. A Disability for purposes of this sub-paragraph (b) means a Participant's Permanent Disability as defined in Section 22(e)(3) of the Code.

(c) Unless otherwise specified in an applicable employment agreement between the Company and the Participant, Cause for purposes of this RSU Award shall have the meaning set forth in the Plan and the Committee shall have the authority to determine whether Participant's termination from employment is for Cause or for any reason other than Cause.**]**

6. **Effects of a Change of Control**. In the event of a Change of Control (as defined in the Plan) prior to the forfeiture of the RSUs under paragraph 7, the provisions of this paragraph 6 shall apply in addition to the provisions of Article 17 (and related provisions) of the Plan.

(a) Any Replacement Award made to the Participant shall provide that if the Participant is involuntarily terminated by the Company without Cause, the non-Vested Replacement Award shall become immediately Vested at the time of the termination. The Committee shall have the discretion to determine the terms of any Replacement Award in compliance with the Plan and applicable law.

(b) If, upon a Change of Control, the Company's Shares are no longer being traded on the NASDAQ or another established securities market and no Replacement Grant is granted to the Participant, the non-Vested portion of the RSUs shall become immediately Vested upon the Change of Control.

(c) Notwithstanding the provisions of subparagraph (a) hereof, in connection with a Change of Control where the Company's shares continue to be traded on the NASDAQ or another established securities market and this RSU Award remains in effect, if the Participant is involuntarily terminated by the Company without Cause, the non-Vested portion of this RSU Award shall become immediately Vested at the time of the termination.

7. **Forfeiture of Non-Vested Restricted Stock Units**. All RSUs that are forfeitable shall be forfeited if Participant's employment with the Company or an Affiliate terminates for any reason other than by reason of a **[Qualifying Termination Event or]** Change of Control as outlined in Paragraph**[s 5 and]** 6.

(a) If the events described in paragraph 6 **[or a Qualifying Termination Event]** occur after the date that Participant is advised that their employment is being, or will be, terminated for Cause, on account of performance or in circumstances that prevent them from being in good standing with the Company, accelerated Vesting shall not occur and all rights under this Award shall terminate, and this Award shall expire on the date of Participant's termination of employment.

Payment of Awards

8. **Time of Payment**. Payment of Participant's RSUs shall be made as soon as practicable after the Units have Vested, but in no event later than March 15th of the calendar year after the year in which the Units Vest.

9. **Form of Payment**. The Vested RSUs shall be paid in (a) whole Shares of the Company's common stock, (b) cash, or (c) a combination of whole Shares of the Company's common stock and cash, as determined solely at the discretion of the Company.

10. **Death of Participant**. If Participant dies prior to the payment of their non-forfeitable RSUs, such Units shall be paid to their Beneficiary. Participant shall have the right to designate a Beneficiary in accordance with procedures established under the Plan for such purpose. If Participant fails to designate a Beneficiary, or if at the time of Participant's death there is no surviving Beneficiary, any amounts payable will be paid to Participant's estate.

11. **Taxes**. Tax withholding requirements attributable to the Vesting of this RSU, including employment taxes, Federal income taxes, and state and local income taxes with respect to the state and locality where, according to the Company's system of records, Participant resides at the time the RSU Vests, except as otherwise might be determined to be required by the Company, will be satisfied by Participant as instructed in the established procedures of the Company; provided, however, that the Company may, at the request of the Participant, withhold from the Award, to the extent paid in Shares, the number of whole Shares of common stock necessary to satisfy tax-withholding requirements attributable to the Vesting of the RSUs. It is Participant's responsibility to properly report all income and remit all Federal, state, and local taxes that may be due to the relevant taxing authorities as the result of the Vesting of this RSU Award.

General Provisions

12. **Accounts**. RSUs granted to Participant shall be credited to an account (the "Account") established and maintained for Participant. A Participant's Account shall be the record of RSUs granted to Participant under the Plan, is solely for accounting purposes and shall not require a segregation of any Company assets.

13. **No Right to Continued Employment**. Neither this RSU Award nor the granting or Vesting of RSUs shall confer upon Participant any right with respect to continuance of employment by the Company or an Affiliate, nor shall it interfere in any way with the right of the Company or an Affiliate to terminate Participant's employment at any time.

14. **Change in Capital Structure**. In accordance with the terms of the Plan, the terms of this RSU Award shall be adjusted as the Committee determines is equitable in the event the Company effects one or more stock dividends, stock split-ups, subdivisions or consolidations of shares or other similar changes in capitalization.

15. **Governing Law**. This RSU Award shall be governed by the laws of the State of Illinois and applicable Federal law. All disputes arising under this RSU Award shall be adjudicated solely within the State or Federal courts located within the Northern District of Illinois.

16. **Conflicts**. In the event of any conflict between the provisions of the Plan as in effect on the Grant Date and the provisions of this RSU Award, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the Grant Date.

17. **Participant Bound by Plan**. Participant has been provided a copy of the Plan and shall be bound by all the terms and provisions thereof.

18. **Binding Effect**. Subject to the limitations stated above and in the Plan, this RSU Award shall be binding upon and inure to the benefit of the legatees, distributees, and personal representatives of Participant and the successors of the Company.

19. **Dividend Equivalents.** (a) If, prior to the payment of the RSUs, the Company declares a cash or stock dividend on its Shares, then, on the payment date of the dividend, Participant's Account shall be credited with Dividend Equivalents in an amount equal to the dividends that would have been paid to Participant if one Share had been issued on the Grant Date for each RSU granted to Participant as set forth in this Notice of RSU Award.

    (b) The Dividend Equivalents credited to Participant's Account will be deemed to be reinvested in additional RSUs (rounded to the nearest whole share) and will be subject to the same terms and conditions as the RSU to which they are attributable and shall Vest or be forfeited (if applicable) at the same time as the RSU to which they are attributable. Such additional RSUs shall also be credited with additional RSUs as any further dividends are declared.

    (c) Dividend Equivalents shall be paid on the same date that the RSU to which they are attributable are settled in accordance with this Notice of RSU Award. Dividend Equivalents credited to Participant's Account shall be distributed in cash or, at the discretion of the Committee, in Shares having a Fair Market Value equal to the amount of the Dividend Equivalents and interest, if any.

20. **Recoupment**. In addition to any other applicable provision of the Plan, this RSU Award is subject to the terms of any separate Clawback Policy maintained by the Company, as such Policy may be amended from time to time.

IN WITNESS WHEREOF, the Company has caused this RSU Award to be signed on its behalf.

LIFEWAY FOODS, INC.

By: ________________________________
Name:
Title:

NOTICE OF PERFORMANCE-BASED RESTRICTED STOCK UNIT AWARD

under the

LIFEWAY FOODS, INC. 2022 OMNIBUS INCENTIVE PLAN

This AWARD, made as of the ___ day of __________, 20__, by Lifeway Foods, Inc., an Illinois corporation (the "Company"), to ____________________ ("Participant"), is made pursuant to and subject to the provisions of the Lifeway Foods, Inc. 2022 Omnibus Incentive Plan (the "Plan"). All terms that are used herein that are defined in the Plan shall have the same meanings given them in the Plan.

Contingent Performance Share Units

1. **Grant Date**. Pursuant to the Plan, the Company, on __________ ___, 20__ (the "Grant Date"), granted Participant an incentive award ("Award") in the form of **(#) Performance-Based Restricted Stock Units** ("Performance Share Units" or "PSUs") (which number of Units is also referred to herein as the "Target Units"), subject to the terms and conditions of the Plan and subject to the terms and conditions set forth herein.

2. **Value**. The value of each PSU on any date shall be equal to the value of one Share of the Company's common stock on such date; and the value of the Company's common stock is the Fair Market Value of the Shares (as defined in the Plan) on the relevant date.

3. **Restrictions**. Except as otherwise provided herein, the Performance Share Units are unearned, nontransferable and are subject to a substantial risk of forfeiture. In addition, the Performance Share Units shall not be earned, and Participant's interest in the Performance Share Units granted hereunder shall be forfeited, except to the extent that the following paragraphs are satisfied.

4. **Performance Criteria**. Participant's Performance Share Units shall be earned as soon as practicable after the end of the relevant Measurement Period based on the formulae and terms below (to the nearest whole Performance Share Unit). Such Performance Share Units shall be subject to the terms and conditions set forth in the following paragraphs of this Notice of Award.

   (a) The Measurement Period for the Performance Share Units is the period running from __________ ___, 20__ to __________ ___, 20__.

   (b) ***[Description of Performance Criteria and Definitions of all Relevant Terms to be inserted]***

5. **Earning and Vesting of Performance Share Units.** (a) As soon as practicable after the end of the Measurement Period, a determination shall be made by the Committee of the number of whole Units that Participant has earned. The date as of which the Committee determines the number of Units earned shall be the "Award Date." All Units that are earned [**As applicable—**

   ALTERNATIVE A*-- shall be vested in accordance with the following schedule:*

   OR

   ALTERNATIVE B*--shall be immediately vested.*

6. **__Time of Payment__**. Payment of Participant's vested Performance Share Units shall be made as soon as practicable after the Award has become vested, but in no event later than March 15th of the calendar year after the year in which the Award becomes vested.

7. **__Form of Payment__**. The vested Performance Share Units shall be paid, as determined solely at the discretion of the Company, ***[AS APPLICABLE--*** in *(a) whole shares of the Company's Common Stock, (b) cash, and/or (c) a combination of both Stock and cash*.**]**

__Termination of Employment *[During the Measurement Period/Before the Award Date] [or Vesting Period]*__

8. ***__[During the Measurement Period/Before the Award Date]__.*** Anything in this Notice of Award to the contrary notwithstanding, if Participant separates from service during the Measurement Period but prior to the forfeiture of the Performance Share Units under paragraph 10,

ALTERNATIVE A-- *all PSUs that are forfeitable shall be forfeited.* ***OR***

ALTERNATIVE B-- *if the separation from service is due to a Qualifying Termination Event (as defined below), all PSUs that are forfeitable shall become fully earned and vested [as of the Award Date that would apply if there was no separation from service.* ***OR***

ALTERNATIVE C-- *if the separation from service is due to a Qualifying Termination Event (as defined below), the portion of the PSUs that are forfeitable shall become earned and vested [as of the Award Date that would apply if there was no separation from service] as to a pro rata portion of the unearned and unvested portion of the PSUs, as determined in accordance with the following sentence. The pro rata portion of the PSUs that shall be earned and vested pursuant to the preceding sentence shall be equal to a fraction (not to exceed 1) of the total PSUs in each unvested Tranche of the PSUs where the numerator of such fraction shall be the number of full months of service performed by Participant after the Grant Date and prior to the Qualifying Termination Date, and the denominator of such fraction shall be determined in accordance with the following table:*

Tranche No.	*Denominator*

The non-vested portion of the PSUs shall be forfeited.

9. ***[IF APPLICABLE -- After the Measurement Period but prior to the Award Date****. Anything in this Notice of Award to the contrary notwithstanding if, after the Measurement Period ends, but prior to the Award Date, Participant experiences a Qualifying Termination Event (as defined below), such Participant shall be entitled to their Target Units as of the Award Date to the extent earned pursuant to paragraph 5, and such earned Units shall be fully vested as of the Award Date.]*

10. **__Forfeiture of Unearned and Non-Vested Performance Units__**. All PSUs that are unearned and/or forfeitable shall be forfeited if Participant's employment with the Company or an Affiliate terminates for any reason other than by reason of a **[Qualifying Termination Event or]** Change in Control as outlined in Paragraph**[s 8, 9, 11 and]** 14.

    (a) If the events described in paragraph 14 **[or a Qualifying Termination Event]** occur after the date that Participant is advised that their employment is being, or will be, terminated for Cause, on account of performance or in circumstances that prevent them from being in good standing with the Company, accelerated Award earning and vesting shall not occur and all rights under this Award shall terminate, and this Award shall expire on the date of Participant's termination of employment.

11. [***IF APPLICABLE*** ***Qualifying Termination Events.*** *For purposes of this Award Notice, Qualifying Termination Event shall mean* ***[AS APPLICABLE****-- the Participant's death, Disability, involuntary termination by the Company or an Affiliate other than for Cause.****]*** *A Disability for purposes of this sub-paragraph (b) means a Participant's Permanent Disability as defined in Section 22(e)(3) of the Code.* ***[****Unless otherwise specified in an applicable employment agreement between the Company and the Participant, Cause for purposes of this Award shall have the meaning set forth in the Plan and the Committee shall have the authority to determine whether Participant's termination from employment is for Cause or for any reason other than Cause.]* ***]***

12. **Death of Participant**. If Participant dies prior to the payment of their non-forfeitable PSUs, such Units shall be paid to their Beneficiary. Participant shall have the right to designate a Beneficiary in accordance with procedures established under the Plan for such purpose. If Participant fails to designate a Beneficiary, or if at the time of Participant's death there is no surviving Beneficiary, any amounts payable will be paid to Participant's estate.

13. **Taxes**. Tax withholding requirements attributable to the earning and vesting of this PSU, including employment taxes, Federal income taxes, and state and local income taxes with respect to the state and locality where, according to the Company's system of records, Participant resides at the time this Award is earned and vests, except as otherwise might be determined to be required by the Company, will be satisfied by Participant as instructed in the established procedures of the Company. For these puroses, the Company may, at the request of the Participant, withhold from the Award, to the extent paid in Shares, the number of whole Shares of common stock necessary to satisfy tax-withholding requirements attributable to the earning and vesting of the Award. It is Participant's responsibility to properly report all income and remit all Federal, state, and local taxes that may be due to the relevant taxing authorities as the result of the earning and Vesting of this Award.

14. **Change in Control**. Anything in this Notice of Award to the contrary notwithstanding, upon a Change in Control (as defined in the Plan), prior to the forfeiture of the Performance Share Units under paragraph 10,

    ALTERNATIVE A *-- all of the Target Units shall be earned and non-forfeitable as of the date of the Change in Control, based on the higher of actual or target performance as of such date.* ***OR***

    ALTERNATIVE B—*[describe other treatment in compliance with Section 17 of the Plan]*

15. **No Right to Continued Employment**. Neither this Award nor the granting or vesting of this Award shall confer upon Participant any right with respect to continuance of employment by the Company or an Affiliate, nor shall it interfere in any way with the right of the Company or an Affiliate to terminate Participant's employment at any time.

16. **Change in Capital Structure**. In accordance with the terms of the Plan, the terms of this Award shall be adjusted as the Committee determines is equitable in the event the Company effects one or more stock dividends, stock split-ups, subdivisions or consolidations of shares or other similar changes in capitalization.

17. **Governing Law**. This Award shall be governed by the laws of the State of Illinois and applicable Federal law. All disputes arising under this Award shall be adjudicated solely within the State or Federal courts located within the Northern District of the State of Illinois.

18. **Conflicts**. In the event of any conflict between the provisions of the Plan as in effect on the Grant Date and the provisions of this Award, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the Grant Date.

19. **Participant Bound by Plan**. Participant has been provided a copy of the Plan and shall be bound by all the terms and provisions thereof.

20. **Binding Effect**. Subject to the limitations stated above and in the Plan, this Award shall be binding upon and inure to the benefit of the legatees, distributees, and personal representatives of Participant and the successors of the Company.

21. **Recoupment**. In addition to any other applicable provision of the Plan, this PSU Award is subject to the terms of any separate Clawback Policy maintained by the Company, as such Policy may be amended from time to time.

IN WITNESS WHEREOF, the Company has caused this Award to be signed on its behalf.

LIFEWAY FOODS, INC.

By: ________________________________
Name:
Title:

EXHIBIT 31.1

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

I, Julie Smolyansky, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 14, 2022

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

EXHIBIT 31.2

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

I, Eric Hanson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 14, 2022

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

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Lifeway Foods, Inc. (the "Company") for the period ended September 30, 2022 as filed with the SEC (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to her knowledge:

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

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

Date: November 14, 2022

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

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Lifeway Foods, Inc. (the “Company”) for the period ended September 30, 2022 as filed with the SEC (the “Report”), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

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

Date: November 14, 2022

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

EXHIBIT 99.1

Lifeway®

Lifeway Foods, Inc. Announces Record Results for the Third Quarter Ended September 30, 2022

Net sales increase 29.1% year-over-year to $38.1 million; up 46.5% compared to 2020

Delivers 12th straight quarter of year-over-year net sales growth

Morton Grove, IL — November 14, 2022— Lifeway Foods, Inc. (Nasdaq: LWAY) ("Lifeway" or "the Company"), a leading U.S. supplier of kefir and fermented probiotic products to support the microbiome, today reported financial results for the third quarter ended September 30, 2022.

"Despite the large macro trends that have affected consumers and competitors in our category, I am pleased to report that Lifeway has achieved a year-over-year net sales increase of 29.1% for the third quarter of 2022, with a two-year stack increase of 46.5% compared to the third quarter of 2020," said Julie Smolyansky, Lifeway's President and Chief Executive Officer. "This quarter's record-breaking topline numbers are a result of our focus on the core Lifeway Kefir business. The strategy we've put in place to build awareness for our flagship product has yielded our 12th consecutive quarter of year-over-year growth at Lifeway, and we are grateful to our customers who have made this milestone possible. As we look forward, our objectives are to increase our assortment and distribution at retail partners with whom we've had tremendous success, gain exposure through marketing campaigns and penetrate additional channels. We have recently gained traction within the convenience channel, and see this as an opportunity to build brand awareness and introduce new consumers to our single-serve products. We look forward to finishing the year strong and preparing for a healthy 2023."

Third Quarter 2022 Results

Net sales were $38.1 million for the third quarter ended September 30, 2022, an increase of $8.6 million or 29.1% from the same period in 2021. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir and the impact of price increases implemented during the first quarter of 2022, and to a lesser extent the favorable impact of our acquisition of GlenOaks Farms during the third quarter of 2021.

Gross profit as a percentage of net sales was 19.9% for the third quarter ended September 30, 2022.

Selling, general and administrative expenses increased $0.4 million to $6.3 million for the third quarter ended September 30, 2022, from $5.9 million during the same period in 2021.

The Company reported net income of $1.0 million or $0.06 per basic and diluted common share for the third quarter ended September 30, 2022.

Conference Call and Webcast

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

About Lifeway Foods, Inc.

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

Forward-Looking Statements

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

Contact:

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

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2022 and December 31, 2021
(In thousands)

	September 30, 2022 Unaudited	December 31, 2021
Current assets		
Cash and cash equivalents	$ 8,933	$ 9,233
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of $1,400 and $1,170 at September 30, 2022 and December 31, 2021 respectively	11,507	9,930
Inventories, net	9,192	8,285
Prepaid expenses and other current assets	1,369	1,254
Refundable income taxes	653	344
Total current assets	**31,654**	**29,046**
Property, plant and equipment, net	20,905	20,130
Operating lease right-of-use asset	135	216
Goodwill	11,704	11,704
Intangible assets, net	7,573	7,978
Other assets	1,800	1,800
Total assets	**$ 73,771**	**$ 70,874**
Current liabilities		
Current portion of note payable	$ 1,000	$ 1,000
Accounts payable	9,119	6,614
Accrued expenses	4,378	3,724
Accrued income taxes	–	725
Total current liabilities	**14,497**	**12,063**
Line of credit	**2,777**	**2,777**
Note payable	**2,725**	**3,470**
Operating lease liabilities	**74**	**85**
Deferred income taxes, net	**3,201**	**3,201**
Other long-term liabilities	**–**	**147**
Total liabilities	**23,274**	**21,743**
Commitments and contingencies	–	–
Stockholders' equity		
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at September 30, 2022 and December 31, 2021	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 15,495 and 15,435 outstanding at September 30, 2022 and December 31, 2021, respectively	6,509	6,509
Paid-in capital	3,271	2,552
Treasury stock, at cost	(12,997)	(13,436)
Retained earnings	53,714	53,506
Total stockholders' equity	**50,497**	**49,131**
Total liabilities and stockholders' equity	**$ 73,771**	**$ 70,874**

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the three and nine months ended September 30, 2022 and 2021
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine months Ended September 30, 2022	Nine months Ended September 30, 2021
Net sales	**$ 38,140**	**$ 29,553**	**$ 105,730**	**$ 88,091**
Cost of goods sold	29,962	21,915	85,032	63,273
Depreciation expense	590	645	1,833	2,099
Total cost of goods sold	30,552	22,560	86,865	65,372
Gross profit	**7,588**	**6,993**	**18,865**	**22,719**
Selling expenses	2,843	2,722	8,527	8,510
General and administrative	3,415	3,194	9,546	8,702
Amortization expense	135	33	405	33
Total operating expenses	**6,393**	**5,949**	**18,478**	**17,245**
Income from operations	**1,195**	**1,044**	**387**	**5,474**
Other income (expense):				
Interest expense	(77)	(30)	(171)	(72)
Gain on investments	–	–	–	2
Loss on sale of property and equipment	–	(5)	–	(88)
Other (expense) income, net	(5)	(2)	(10)	(61)
Total other income (expense)	(82)	(37)	(181)	(219)
Income before provision (benefit) for income taxes	**1,113**	**1,007**	**206**	**5,255**
Provision (benefit) for income taxes	130	527	(2)	1,851
Net income	**$ 983**	**$ 480**	**$ 208**	**$ 3,404**
Earnings (loss) per common share:				
Basic	$ 0.06	$ 0.03	$ 0.01	$ 0.22
Diluted	$ 0.06	$ 0.03	$ 0.01	$ 0.22
Weighted average common shares:				
Basic	15,490	15,473	15,462	15,572
Diluted	15,848	15,651	15,759	15,712

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

	Nine months ended September 30,	
	2022	**2021**
Cash flows from operating activities:		
Net income	**$ 208**	**$ 3,404**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	2,238	2,132
Non-cash interest expense	5	9
Non-cash rent expense	–	1
Bad debt expense	–	6
Deferred revenue	(23)	(23)
Stock-based compensation	755	608
Loss on sale of property and equipment	–	88
(Increase) decrease in operating assets:		
Accounts receivable	(1,576)	(1,832)
Inventories	(907)	(642)
Refundable income taxes	(309)	(384)
Prepaid expenses and other current assets	(115)	(152)
Increase (decrease) in operating liabilities:		
Accounts payable	3,085	1,695
Accrued expenses	1,003	1,498
Accrued income taxes	(725)	(553)
Net cash provided by operating activities	**3,639**	**5,855**
Cash flows from investing activities:		
Purchases of property and equipment	(2,609)	(1,685)
Acquisition, net of cash acquired	(580)	(5,220)
Net cash used in investing activities	**(3,189)**	**(6,905)**
Cash flows from financing activities:		
Purchase of treasury stock	–	(1,583)
Payment of deferred financing cost	–	(25)
Proceeds from note payable	–	5,000
Repayment of note payable	(750)	(250)
Net cash used in financing activities	**(750)**	**3,142**
Net (decrease) increase in cash and cash equivalents	**(300)**	**2,092**
Cash and cash equivalents at the beginning of the period	9,233	7,926
Cash and cash equivalents at the end of the period	**$ 8,933**	**$ 10,018**
Supplemental cash flow information:		
Cash paid for income taxes, net	$ 640	$ 2,788
Cash paid for interest	$ 158	$ 60
Non-cash investing activities		
Increase (decrease) in right-of-use assets and operating lease obligations	$ 19	$ 45