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, 2024

☐ 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 a*s 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**
Preferred Stock Purchase Rights	–	**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 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 6, 2024: 14,816,470.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2024 and December 31, 2023
(In thousands)

	September 30, 2024 (Unaudited)	December 31, 2023
Current assets		
Cash and cash equivalents	$ 20,558	$ 13,198
Accounts receivable, net of allowance for credit losses and discounts & allowances of $1,320 and $1,270 at September 30, 2024 and December 31, 2023 respectively	13,495	13,875
Inventories, net	8,441	9,104
Prepaid expenses and other current assets	1,893	2,019
Refundable income taxes	379	–
Total current assets	**44,766**	**38,196**
Property, plant and equipment, net	26,310	22,764
Operating lease right-of-use asset	136	192
Goodwill	11,704	11,704
Intangible assets, net	6,493	6,898
Other assets	1,900	1,900
Total assets	**$ 91,309**	**$ 81,654**
Current liabilities		
Current portion of note payable	$ –	$ 1,250
Accounts payable	11,117	9,976
Accrued expenses	5,589	4,916
Accrued income taxes	–	474
Total current liabilities	**16,706**	**16,616**
Note payable	**–**	**1,483**
Operating lease liabilities	**79**	**118**
Deferred income taxes, net	**3,001**	**3,001**
Total liabilities	**19,786**	**21,218**
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at September 30, 2024 and December 31, 2023	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 14,816 and 14,691 outstanding at September 30, 2024 and December 31, 2023, respectively	6,509	6,509
Paid-in capital	5,915	4,825
Treasury stock, at cost	(15,883)	(16,695)
Retained earnings	74,982	65,797
Total stockholders' equity	**71,523**	**60,436**
Total liabilities and stockholders' equity	**$ 91,309**	**$ 81,654**

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, 2024 and 2023
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Net sales	**$ 46,095**	**$ 40,896**	**$ 139,886**	**$ 118,030**
Cost of goods sold	33,508	29,099	101,127	85,428
Depreciation expense	720	654	2,082	1,953
Total cost of goods sold	34,228	29,753	103,209	87,381
Gross profit	**11,867**	**11,143**	**36,677**	**30,649**
Selling expense	3,979	2,884	11,256	8,974
General and administrative expense	3,564	3,085	11,877	10,028
Amortization expense	135	135	405	405
Total operating expenses	**7,678**	**6,104**	**23,538**	**19,407**
Income from operations	**4,189**	**5,039**	**13,139**	**11,242**
Other income (expense):				
Interest expense	(4)	(109)	(102)	(322)
Gain on sale of property and equipment	3	–	3	33
Other income (expense), net	138	(1)	153	(1)
Total other income (expense)	137	(110)	54	(290)
Income before provision for income taxes	**4,326**	**4,929**	**13,193**	**10,952**
Provision for income taxes	1,350	1,517	4,008	3,554
Net income	**$ 2,976**	**$ 3,412**	**$ 9,185**	**$ 7,398**
Net earnings per common share:				
Basic	$ 0.20	$ 0.23	$ 0.62	$ 0.50
Diluted	$ 0.19	$ 0.23	$ 0.60	$ 0.49
Weighted average common shares outstanding:				
Basic	14,801	14,677	14,740	14,659
Diluted	15,265	15,101	15,194	15,063

See accompanying notes to consolidated financial statements

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, 2023	**17,274**	**$ 6,509**	**(2,629)**	**$ (16,993)**	**$ 3,624**	**$ 54,430**	**$ 47,570**
Stock-based compensation	–	–	–	–	343	–	343
Net income	–	–	–	–	–	830	830
Balance, March 31, 2023	**17,274**	**$ 6,509**	**(2,629)**	**$ (16,993)**	**$ 3,967**	**$ 55,260**	**$ 48,743**
Issuance of common stock in connection with stock-based compensation	–	–	11	73	(112)	–	(39)
Stock-based compensation	–	–	–	–	312	–	312
Net income	–	–	–	–	–	3,156	3,156
Balance, June 30, 2023	**17,274**	**$ 6,509**	**(2,618)**	**$ (16,920)**	**$ 4,167**	**$ 58,416**	**$ 52,172**
Issuance of common stock in connection with stock-based compensation	–	–	35	225	(252)	–	(27)
Stock-based compensation	–	–	–	–	423	–	423
Net income	–	–	–	–	–	3,412	3,412
Balance, September 30, 2023	**17,274**	**$ 6,509**	**(2,583)**	**$ (16,995)**	**$ 4,338**	**$ 61,828**	**$ 55,980**

(continued)

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

	Common Stock						
	Issued		In treasury				
	Shares	$	Shares	$	Paid-In Capital	Retained Earnings	Total Equity
Balance, January 1, 2024	**17,274**	**$ 6,509**	**(2,583)**	**$ (16,695)**	**$ 4,825**	**$ 65,797**	**$ 60,436**
Stock-based compensation	–	–	–	–	673	–	673
Net income	–	–	–	–	–	2,426	2,426
Balance, March 31, 2024	**17,274**	**$ 6,509**	**(2,583)**	**$ (16,695)**	**$ 5,498**	**$ 68,223**	**$ 63,535**
Issuance of common stock in connection with stock-based compensation	–	–	89	575	(739)	–	(164)
Issuance of common stock on exercise of stock options	–	–	11	70	36	–	106
Stock-based compensation	–	–	–	–	737	–	737
Net income	–	–	–	–	–	3,783	3,783
Balance, June 30, 2024	**17,274**	**$ 6,509**	**(2,483)**	**$ (16,050)**	**$ 5,532**	**$ 72,006**	**$ 67,997**
Issuance of common stock in connection with stock-based compensation	–	–	26	167	(220)	–	(53)
Stock-based compensation	–	–	–	–	603	–	603
Net income	–	–	–	–	–	2,976	2,976
Balance, September 30, 2024	**17,274**	**$ 6,509**	**(2,457)**	**$ (15,883)**	**$ 5,915**	**$ 74,982**	**$ 71,523**

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,	
	2024	**2023**
Cash flows from operating activities:		
Net income	**$ 9,185**	**$ 7,398**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	2,487	2,358
Stock-based compensation	1,898	1,078
Non-cash interest expense	17	5
Bad debt expense	–	2
Gain on sale of equipment	(3)	(33)
(Increase) decrease in operating assets:		
Accounts receivable	379	(1,683)
Inventories	663	310
Refundable income taxes	(379)	(216)
Prepaid expenses and other current assets	125	(176)
Increase (decrease) in operating liabilities:		
Accounts payable	949	928
Accrued expenses	694	1,673
Accrued income taxes	(474)	500
Net cash provided by operating activities	**15,541**	**12,144**
Cash flows from investing activities:		
Purchases of property and equipment	(5,445)	(3,146)
Proceeds from sales or equipment	14	40
Purchase of investments	–	(100)
Net cash used in investing activities	**(5,431)**	**(3,206)**
Cash flows from financing activities:		
Repayment of note payable	(2,750)	(750)
Net cash used in financing activities	**(2,750)**	**(750)**
Net increase in cash and cash equivalents	**7,360**	**8,188**
Cash and cash equivalents at the beginning of the period	13,198	4,444
Cash and cash equivalents at the end of the period	**$ 20,558**	**$ 12,632**
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	$ 4,861	$ 3,270
Cash paid for interest	$ 95	$ 343
Non-cash investing activities		
Accrued purchase of property and equipment	$ 331	$ 194
Increase in right-of-use assets and operating lease obligations	$ –	$ 86

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)
(In thousands, except per share data)

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 Annual Report on Form 10-K for the fiscal year ended December 31, 2023 filed by Lifeway Foods, Inc. (together with all of its wholly-owned subsidiaries unless the context otherwise requires, the "Company"). 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. All significant intercompany accounts and transactions have been eliminated.

Note 2 – Summary of Significant Accounting Policies

Our significant accounting policies, which are summarized in detail in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, have not materially changed. The following is a description of certain of our significant accounting policies.

Use of estimates

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

Cash and cash equivalents

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

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

Advertising and promotional costs

Advertising costs are expensed as incurred and reported in Selling expense in the Company's consolidated statement of operations. Total advertising expense was $4,131 and $2,884 for the nine months ended September 30, 2024 and 2023, respectively. Total advertising expense was $1,599 and $878 for the three months ended September 30, 2024 and 2023, 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 but not yet effective

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

In December 2023, the FASB issued ASU No. 2023-09: Income Taxes (Topic 740): Improvements to Income Tax Disclosures that requires entities to disclose additional information about federal, state, and foreign income taxes primarily related to the income tax rate reconciliation and income taxes paid. The new standard also eliminates certain existing disclosure requirements related to uncertain tax positions and unrecognized deferred tax liabilities. The new standard is effective for our fiscal year ending December 31, 2025. The guidance does not affect recognition or measurement in the Company's consolidated financial statements.

In November 2024, the FASB issued ASU 2024-03, Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Topic 220): Disaggregation of Income Statement Expenses. The new standard requires additional disclosure of certain amounts included in the expense captions presented on the Statement of Operations as well as disclosures about selling expenses. The new standard is effective on a prospective basis, with the option for retrospective application, for our annual period ending December 31, 2027 and our interim periods during the fiscal year ending December 31, 2028. The new standard does not affect recognition or measurement in the Company's consolidated financial statements.

Note 3 – Inventories, net

Inventories consisted of the following:

	September 30, 2024	December 31, 2023
Ingredients	$ 2,360	$ 2,929
Packaging	2,532	3,014
Finished goods	3,549	3,161
Total inventories, net	$ 8,441	$ 9,104

Note 4 – Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

	September 30, 2024	December 31, 2023
Land	$ 1,565	$ 1,565
Buildings and improvements	22,667	21,661
Machinery and equipment	36,222	33,573
Vehicles	626	705
Office equipment	1,072	1,072
Construction in process	3,843	2,154
	65,995	60,730
Less accumulated depreciation	(39,685)	(37,966)
Total property, plant and equipment, net	$ 26,310	$ 22,764

Note 5 – Goodwill and Intangible Assets

Goodwill

Goodwill consisted of the following:

	Total
Balance at December 31, 2023	
Goodwill	$ 12,948
Accumulated impairment losses	(1,244)
	$ 11,704
Balance at September 30, 2024	
Goodwill	$ 12,948
Accumulated impairment losses	(1,244)
	$ 11,704

Intangible Assets

Other intangible assets, net consisted of the following:

	September 30, 2024			December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Recipes	$ 44	$ (44)	$ –	$ 44	$ (44)	$ –
Customer lists and other customer related intangibles	4,529	(4,529)	–	4,529	(4,529)	–
Customer relationships	3,385	(1,492)	1,893	3,385	(1,372)	2,013
Brand names	7,948	(3,348)	4,600	7,948	(3,063)	4,885
Formula	438	(438)	–	438	(438)	–
Total intangible assets, net	$ 16,344	$ (9,851)	$ 6,493	$ 16,344	$ (9,446)	$ 6,898

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

Year	Amortization
Three months ended December 31, 2024	$ 135
2025	$ 540
2026	$ 540
2027	$ 540
2028	$ 540

The weighted-average remaining amortization expense period for the customer relationship and brand name intangible assets is 11.8 and 12.1 years, respectively, as of September 30, 2024. The weighted-average remaining amortization expense period for total intangible assets is 12.0 years as of September 30, 2024.

Note 6 – Accrued Expenses

Accrued expenses consisted of the following:

	September 30, 2024	**December 31, 2023**
Payroll and incentive compensation	$ 4,747	$ 3,853
Real estate taxes	410	442
Utilities	209	241
Current portion of operating lease liabilities	57	74
Other	166	306
Total accrued expenses	$ 5,589	$ 4,916

Note 7 – Debt

Note payable consisted of the following:

	September 30, 2024	December 31, 2023
Term loan due August 18, 2026. Interest payable monthly.	$ –	$ 2,750
Unamortized deferred financing costs	–	(17)
Total note payable	–	2,733
Less current portion	–	(1,250)
Total long-term portion	$ –	$ 1,483

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

Credit Agreement

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

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

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

Lifeway was in compliance with the fixed charge coverage ratio and minimum working capital covenants at September 30, 2024.

Revolving Credit Facility

As of September 30, 2024, the Company had $0 outstanding under the Revolving Credit Facility. The Company had $5,000 available for future borrowings under the Revolving Credit Facility as of September 30, 2024.

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. The Company includes lease extension options, if applicable and reasonably certain to be exercised, in the calculation of the right-of-use asset and lease liabilities. Lifeway includes only fixed payments for lease components in the measurement of the right-of-use asset and lease liability. Variable lease payments are those that vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time. There are no residual value guarantees. Lifeway does not currently have leases which meet the finance lease classification as defined under ASC 842.

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

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

The Company does not record leases with an initial term of 12 months or less on the balance sheet. Expense for these short-term leases is recorded on a straight-line basis over the lease term. Total lease expense was $110 and $102 (including short term leases) for the nine months ended September 30, 2024 and 2023, respectively. Total lease expense was $33 and $41 (including short term leases) for the three months ended September 30, 2024 and 2023, respectively.

Future maturities of lease liabilities were as follows:

Year	Operating Leases
Three months ended December 31, 2024	$ 21
2025	55
2026	31
2027	21
2028	17
Thereafter	10
Total lease payments	155
Less: Interest	(19)
Present value of lease liabilities	$ 136

The weighted-average remaining lease term for its operating leases was 3.4 years as of September 30, 2024. The weighted average discount rate of its operating leases was 8.94% as of September 30, 2024. Cash paid for amounts included in the measurement of lease liabilities was $68 and $70 for the nine months ended September 30, 2024 and 2023, respectively. Cash paid for amounts included in the measurement of lease liabilities was $22 and $24 for the three months ended September 30, 2024 and 2023, respectively.

Note 9 – Commitments and contingencies

Litigation

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

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

Note 10 – Income taxes

Income taxes were recognized at effective rates of 30.4% and 32.5% for the nine months ended September 30, 2024 and 2023, respectively. Income taxes were recognized at effective rates of 31.2% and 30.8% for the three months ended September 30, 2024 and 2023, respectively.

The Company calculates the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate for the full year, excluding unusual or infrequently occurring discrete items, and applies that rate to income (loss) before provision for income taxes for the period.

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 2024, the percentage effect is different due to the difference in pre-tax income in 2024 compared to 2023.

Unrecognized tax benefits were $0 at September 30, 2024 and 2023. The Company does not expect material changes to its unrecognized tax benefits during the next twelve months.

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 2015 Omnibus Incentive Plan, the Board of Directors or its Compensation 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, 2024, no shares remain available for award under the 2015 Omnibus Incentive Plan as it was terminated on August 31, 2022. However, any outstanding awards under the 2015 Omnibus Incentive Plan are unaffected by the termination of the 2015 Omnibus Incentive Plan or by the approval of the 2022 Omnibus Incentive Plan (the "2022 Plan") as described below.

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

Awards granted under the 2022 Plan are generally subject to a minimum vesting period of at least one year. Awards may be subject to cliff-vesting or graded-vesting conditions, with graded vesting starting no earlier than one year after the grant date. The Plan Administrator may provide for shorter vesting periods in an award agreement for no more than five percent of the maximum number of shares authorized for issuance under the 2022 Plan. As of September 30, 2024, 2.64 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, 2024:

	Options	**Weighted average exercise price**	**Weighted average remaining contractual life**	**Aggregate intrinsic value**
	(In thousands)			
Outstanding at December 31, 2023	41	$ 10.42	2.21	$ 121
Granted	–	–	–	–
Exercised	(11)	10.41	–	–
Forfeited	–	–	–	–
Outstanding at September 30, 2024	30	$ 10.42	1.46	$ 460
Exercisable at September 30, 2024	30	$ 10.42	1.46	$ 460

Restricted Stock Units

A Restricted Stock Unit ("RSU") represents the right to receive one share of common stock in the future. RSUs have no exercise price. The grant date fair value of the awards is determined by the Company's closing stock price on the grant date. Lifeway expenses RSUs over the vesting period. The following table summarizes RSU activity during the three months ended September 30, 2024.

	Restricted Stock Units	Weighted Average Grant Date Fair Value
	(In thousands)	
Outstanding at December 31, 2023	207	$ 6.89
Granted	57	13.12
Shares issued upon vesting	(35)	7.27
Forfeited	–	–
Outstanding at September 30, 2024	229	$ 8.38
Vested and deferred at September 30, 2024	109	$ 7.02

For the nine months ended September 30, 2024 and 2023 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $703 and $356, respectively. For the nine months ended September 30, 2024 and 2023 tax-related benefits of $197 and $100, respectively, were also recognized. For the three months ended September 30, 2024 and 2023 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $235 and $154, respectively. For the three months ended September 30, 2024 and 2023 tax-related benefits of $66 and $43, respectively, were also recognized. Future compensation expense related to restricted stock units was $793 as of September 30, 2024 and will be recognized on a weighted average basis over the next 1.25 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 Lifeway's 2020 performance levels compared to the respective targets. The equity-based incentive compensation is payable in restricted stock that vests one-third in April 2022, one-third in April 2023, and one-third in April 2024. The issuance of vested equity awards is subject to approval under the Stock Purchase Agreement dated October 1, 1999. For the nine months ended September 30, 2024 and 2023, $24 and $87 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2024 and 2023, $0 and $18 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of September 30, 2024, all compensation has been recognized.

2021 Equity Award

The 2021 long-term equity incentive plan compensation is based on Lifeway's achievement of adjusted EBITDA performance versus the respective target established by the Board of Directors 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, 2024 and 2023, $40 and $161 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2024 and 2023, $0 and $33 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of September 30, 2024, all compensation has been recognized.

2022 Equity Award

Under the 2022 long-term incentive plan, participants can earn a specified number of target level Performance Share Units ("PSUs") contingent upon the achievement of strategic milestones during the three-year Measurement Period, which is fiscal year 2022 to 2024. The strategic milestones are 1) 3-year cumulative net revenue, and 2) 3-year cumulative adjusted EBITDA. The target number of PSU awards are weighted 50% on net revenue and 50% on adjusted EBITDA. Collectively, the participants can earn 125,066 PSUs at the target level. Participants may earn more or less than the target number of shares based on actual results, however the minimum and maximum number of shares that can be earned are bound by minimum and maximum thresholds of net revenue and adjusted EBITDA. The PSU awards will be earned and will vest, if at all, after the end of the three-year measurement period based on achievement of the milestones. The PSU awards do not vest during the three-year measurement period. The PSUs have a grant date fair value of $6.25 per share. For the nine months ended September 30, 2024 and 2023, $420 and $356 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2024 and 2023, $132 and $116 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively.

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

2023 Equity Award

Under the 2023 long-term incentive plan, participants can earn a specified number of target level Performance Share Units ("PSUs") contingent upon the achievement of strategic milestones during the three-year Measurement Period, which is fiscal year 2023 to 2025. The strategic milestones are 1) 3-year cumulative net revenue, and 2) 3-year cumulative adjusted EBITDA. The target number of PSU awards are weighted 50% on net revenue and 50% on adjusted EBITDA. Collectively, the participants can earn 115,622 PSUs at the target level. Participants may earn more or less than the target number of shares based on actual results, however the minimum and maximum number of shares that can be earned are bound by minimum and maximum thresholds of net revenue and adjusted EBITDA. The PSU awards will be earned and will vest, if at all, after the end of the three-year measurement period based on achievement of the milestones. The PSU awards do not vest during the three-year measurement period. The PSUs have a grant date fair value of $6.88 per share. For the nine months ended September 30, 2024 and 2023, $377 and $118 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2024 and 2023, $122 and $102 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively.

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

2024 Equity Award

Under the 2024 long-term incentive plan, participants can earn a specified number of target level Performance Share Units ("PSUs") contingent upon the achievement of strategic milestones during the three-year Measurement Period, which is fiscal year 2024 to 2026. The strategic milestones are 1) 3-year cumulative net revenue, and 2) 3-year cumulative adjusted EBITDA. The target number of PSU awards are weighted 50% on net revenue and 50% on adjusted EBITDA. Collectively, the participants can earn 64,986 PSUs at the target level. Participants may earn more or less than the target number of shares based on actual results, however the minimum and maximum number of shares that can be earned are bound by minimum and maximum thresholds of net revenue and adjusted EBITDA. The PSU awards will be earned and will vest, if at all, after the end of the three-year measurement period based on achievement of the milestones. The PSU awards do not vest during the three-year measurement period. The PSUs have a grant date fair value of $13.73 per share. For the nine months ended September 30, 2024 and 2023, $334 and $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2024 and 2023, $113 and $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively.

The 2024 long-term incentive plan also granted restricted stock unit awards that contain only a service condition and vest on the passage of time in three equal installments on each of the first three anniversaries of the January 10, 2024 grant date. The stock-based compensation expense for these awards is included in the Restricted Stock Units section above.

Non-Employee Director Plan

On August 31, 2022, Lifeway stockholders approved the 2022 Non-Employee Director Equity and Deferred Compensation Plan, as amended by Amendment No. 1 approved by the Board on June 7, 2024 (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, or such other date as the Board shall determine, 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 Director Plan is 500 thousand shares. As of September 30, 2024, 394 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 and/or RSU compensation (in 10% increments) into a deferred RSU account as RSUs. 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 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, 2024 and 2023 total contribution expense recognized in the consolidated statements of operations was $495 and $364, respectively. For the three months ended September 30, 2024 and 2023, total contribution expense recognized in the consolidated statements of operations was $133 and $106, respectively.

Note 12 - Earnings Per Share

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

	Three Months Ended September 30,		Nine months Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
Weighted average common shares outstanding	14,801	14,677	14,740	14,659
Assumed exercise/vesting of equity awards	464	424	454	404
Weighted average diluted common shares outstanding	15,265	15,101	15,194	15,063

Note 13 – Disaggregation of Revenue and Significant 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 of products by category were as follows for the nine months ended September 30:

	2024		2023	
In thousands	$	%	$	%
Drinkable Kefir other than ProBugs	115,280	82%	94,174	80%
Cheese	10,476	8%	10,074	9%
Cream and other	6,202	4%	5,362	4%
Drinkable Yogurt	4,419	3%	4,760	4%
ProBugs Kefir	2,494	2%	2,490	2%
Other dairy	1,015	1%	1,170	1%
Net Sales	139,886	100%	118,030	100%

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

	2024		2023	
In thousands	$	%	$	%
Drinkable Kefir other than ProBugs	37,737	82%	33,035	81%
Cheese	3,584	8%	3,353	8%
Cream and other	2,215	5%	1,811	4%
Drinkable Yogurt	1,501	3%	1,485	4%
ProBugs Kefir	744	1%	820	2%
Other dairy	314	1%	392	1%
Net Sales	46,095	100%	40,896	100%

Significant Customers

Sales are predominately to companies in the retail food industry located within the United States. Two major customers accounted for a total of approximately 25% and 23% of net sales for the nine months ended September 30, 2024 and 2023, respectively. Two major customers accounted for a total of approximately 24% of net sales for the three months ended September 30, 2024 and 2023.

Geographic Information

Net sales outside the of the United States represented less than 1% of total consolidated net sales for the nine months and three months ended September 30, 2024 and 2023. Net sales outside of the United States are determined based on where ownership transfers to the customer.

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

Note 14 – Subsequent Events

On November 4, 2024, the Company entered into a Shareholder Rights Agreement with Computershare Trust Company, N.A., as rights agent (the “Rights Agreement”). Pursuant to the Rights Agreement, the Company’s board of directors declared a dividend of one preferred share purchase right (each a “Right”) for each outstanding share of Company common stock to stockholders of record as of the close of business on November 18, 2024. Each Right entitles its holder, subject to the terms of the Rights Agreement, to purchase from the Company one one-thousandth of one share of Series A Junior Participating Preferred Stock, no par value, of the Company at an exercise price of $130.00 per Right, subject to adjustment. Rights will attach to any shares of Company common stock that become outstanding after November 18, 2024 and prior to the earlier of the Distribution Time (as defined in the Rights Agreement) and the redemption or expiration of the Rights, and in certain other circumstances described in the Rights Agreement.

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, 2023 (the "Form 10-K"). Unless otherwise specified, any description of "our", "we", and "us" in this MD&A refer to Lifeway Foods, Inc. ("Lifeway") and our wholly-owned 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, if any;
- 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:

- Changes in the pricing of commodities;
- The actions and decisions of our competitors and customers, including those related to price competition;
- Our ability to successfully implement our business strategy;
- The effects of government regulation;
- Disruptions to our supply chain, or our manufacturing and distribution capabilities, including those due to cybersecurity threats; 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, 2023 , Part II, Item 1A of this Form 10-Q and that are described from time to time in our other periodic reports filed 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.

Business Overview

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

Our primary product is drinkable kefir, a cultured dairy product. Lifeway Kefir is tart and tangy, high in protein, calcium and vitamin D. 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.

Products

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

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

Distribution Strategy

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

Unsolicited Offer

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

Trends and Uncertainties

Current Macroeconomic Environment

We have not experienced significant supply chain disruptions or labor supply shortages and have continued to satisfy customer and consumer demand for our products. Management continues to proactively manage the supply and transportation of materials used to produce and package our products, staffing, and transportation of our products to customers. This proactive planning has allowed the Company to meet increased demand.

Results of Operations

Three Months Ended September 30, 2024 Compared to Three Months Ended September 30, 2023

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,			
	2024		2023	
	$	%	$	%
Net sales	**46,095**	**100.0%**	**40,896**	**100.0%**
Cost of goods sold	33,508	72.7%	29,099	71.2%
Depreciation expense	720	1.6%	654	1.6%
Total cost of goods sold	34,228	74.3%	29,753	72.8%
Gross profit	**11,867**	**25.7%**	**11,143**	**27.2%**
Selling expense	3,979	8.6%	2,884	7.1%
General & administrative expense	3,564	7.7%	3,085	7.5%
Amortization expense	135	0.3%	135	0.3%
Total operating expenses	**7,678**	**16.6%**	**6,104**	**14.9%**
Income from operations	**4,189**	**9.1%**	**5,039**	**12.3%**
Other income (expense):				
Interest expense	(4)	(0.0%)	(109)	(0.3%)
Gain on sale of property and equipment	3	0.0%	–	0.0%
Other income (expense), net	138	0.3%	(1)	0.0%
Total other income (expense)	137	0.3%	(110)	(0.3%)
Income before provision for income taxes	**4,326**	**9.4%**	**4,929**	**12.0%**
Provision for income taxes	1,350	2.9%	1,517	3.7%
Net income	**2,976**	**6.5%**	**3,412**	**8.3%**

Net Sales

Net sales were $46,095 for the three-month period ended September 30, 2024, an increase of $5,199 or 12.7% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir.

Gross Profit

Gross profit as a percentage of net sales was 25.7% and 27.2% in the three-month period ended September 30, 2024 and 2023, respectively. The decrease versus the prior year was primarily due to unfavorable milk pricing, partially offset by favorable transportation costs.

Selling Expense

Selling expenses increased by $1,095 to $3,979 during the three-month period ended September 30, 2024 from $2,884 during the same period in 2023. Selling expenses as a percentage of net sales increased to 8.6% in the three-month period ended September 30, 2024 from 7.1% during the same period in 2023. The increase is primarily driven by our continued investments in marketing activities.

General and Administrative Expense

General and administrative expenses increased $479 to $3,564 during the three-month period ended September 30, 2024 from $3,085 during the same period in 2023. General and administrative expenses as a percentage of net sales increased to 7.7% in the three-month period ended September 30, 2024 from 7.5% during the same period in 2023.

Provision for Income Taxes

The provision for income taxes was $1,350 and $1,517 during the three months ended September 30, 2024 and 2023, respectively.

The effective income tax rate for the three months ended September 30, 2024 was 31.2% compared to 30.8% in the same period last year. The statutory Federal and state tax rates remained consistent from 2024 to 2023. 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 2023, the percentage effect is different due to the difference in pre-tax income in 2024 compared to 2023.

The Company's effective tax rate may change from period to period based on recurring and non-recurring factors including the relative mix of pre-tax earnings (or losses), the 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, 2024 Compared to Three Months Ended September 30, 2023

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,			
	2024		**2023**	
	$	**%**	**$**	**%**
Net sales	**139,886**	**100.0%**	**118,030**	**100.0%**
Cost of goods sold	101,127	72.3%	85,428	72.4%
Depreciation expense	2,082	1.5%	1,953	1.7%
Total cost of goods sold	103,209	73.8%	87,381	74.1%
Gross profit	**36,677**	**26.2%**	**30,649**	**25.9%**
Selling expense	11,256	8.0%	8,974	7.6%
General & administrative expense	11,877	8.5%	10,028	8.5%
Amortization expense	405	0.3%	405	0.3%
Total operating expenses	**23,538**	**16.8%**	**19,407**	**16.4%**
Income from operations	**13,139**	**9.4%**	**11,242**	**9.5%**
Other income (expense):				
Interest expense	(102)	(0.1%)	(322)	(0.3%)
Gain on sale of property and equipment	3	0.0%	33	0.0%
Other income (expense), net	153	0.1%	(1)	0.0%
Total other income (expense)	54	0.0%	(290)	(0.3%)
Income before provision for income taxes	**13,193**	**9.4%**	**10,952**	**9.2%**
Provision for income taxes	4,008	2.9%	3,554	3.0%
Net income	**9,185**	**6.5%**	**7,398**	**6.2%**

Net Sales

Net sales were at $139,886 for the nine-month period ended September 30, 2024, an increase of $21,856 or 18.5% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir.

Gross Profit

Gross profit as a percentage of net sales was 26.2% and 25.9% during the nine-month period ended September 30, 2024 and 2023, respectively. The increase versus the prior year was primarily due to the higher volumes of our branded products, which provided manufacturing efficiencies and favorable fixed cost absorption.

Selling Expense

Selling expense increased by $2,282 to $11,256 during the nine-month period ended September 30, 2024 from $8,974 during the same period in 2023. Selling expenses as a percentage of net sales increased to 8.0% in the three-month period ended September 30, 2024 from 7.6% during the same period in 2023.

General and Administrative Expense

General and administrative expense increased $1,849 to $11,877 during the nine-month period ended September 30, 2024 from $10,028 during the same period in 2023. The increase is primarily driven by stock-based incentive compensation and non-routine stockholder action expense.

Provision for Income Taxes

The provision for income taxes was $4,008 and $3,554 during the nine months ended September 30, 2024 and 2023, respectively.

The effective income tax rate for the nine months ended September 30, 2024 was 30.4% compared to 32.5% in the same period last year. The statutory Federal and state tax rates remained consistent from 2024 to 2023. 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 2023, the percentage effect is different due to the difference in pre-tax income in 2024 compared to 2023.

The Company's effective tax rate may change from period to period based on recurring and non-recurring factors including the relative mix of pre-tax earnings (or losses), the 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 cash and cash equivalents will continue to provide sufficient liquidity for its working capital needs, capital resource requirements, and growth initiatives and to ensure the continuation of the Company as a going concern.

If additional borrowings are needed, $5,000 was available under the Revolving Credit Facility as of September 30, 2024 (see Note 7, Debt). We are in compliance with the terms of the Credit Agreement and expect to meet foreseeable financial requirements. The success of our business and financing strategies will continue to provide us with the financial flexibility to take advantage of various opportunities as they arise. To date, we have been successful in generating cash and obtaining financing as needed. However, if a serious economic or credit market crisis ensues, it could have a negative effect on our liquidity, results of operations and financial condition.

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

Long-term cash requirements primarily relate to funding deferred income taxes (see Note 10, Income Taxes, in our Annual Report on Form 10-K).

Cash Flow

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

	Nine months Ended September 30,			
Net Cash Flows Provided By (Used In):	2024		2023	
Operating activities	$	15,541	$	12.144
Investing activities	$	(5,431)	$	(3,206)
Financing activities	$	(2,750)	$	(750)

Operating Activities

Net cash provided by operating activities was $15,541 during the nine-month period ended September 30, 2024 compared to $12,144 in the same period in 2023. The increase is primarily due to higher cash earnings driven by increased product volumes.

Investing Activities

Net cash used in investing activities was $5,431 during the nine-month period ended September 30, 2024 compared to $3,206 in the same period in 2023. The increase in cash used reflects our planned capital spending increase during 2024 compared to 2023. Our capital spending is focused in three core areas: growth, cost reduction, and facility improvements. Growth capital spending supports capacity expansion and new product innovation and enhancements. Cost reduction and facility improvements support manufacturing efficiency, safety, and productivity. We continue to make capital expenditures primarily to modernize manufacturing facilities and support productivity initiatives.

Financing Activities

Net cash used in financing activities was $2,750 and $750 during the nine-month period ended September 30, 2024 and 2023, respectively. The cash used represents the quarterly principal payments under the term loan. The Company paid the outstanding term loan balance of $2,250 in full during the second quarter of 2024.

Debt Obligations

The Company is party to an Amended and Restated Loan and Security Agreement (as amended and modified from time to time, the "Credit Agreement") with its existing lender and certain of its subsidiaries. The Credit Agreement provides for, among other things, a $5 million term loan to be repaid in quarterly installments of principal and interest over a term of five years, a revolving line of credit up to a maximum of $5 million (the "Revolving Credit Facility") and an incremental facility not to exceed $5 million. The termination date of the term loan is August 18, 2026, unless earlier terminated. The term loan was terminated during the second quarter of 2024 upon payment of the outstanding loan balance in full. The termination date of the revolving credit facility is June 30, 2025, unless earlier terminated.

As of September 30, 2024, the Company had $0 outstanding under the Revolving Credit Facility and note payable. The Company had $5,000 available for future borrowings under the Revolving Credit Facility as of September 30, 2024.

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

The Company is in compliance with all applicable financial debt covenants as of September 30, 2024. 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, 2023. There were no material changes to the Company's critical accounting policies and estimates in the nine months ended September 30, 2024.

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, 2024. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2024.

Changes in Internal Control over Financial Reporting

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, 2024 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 proceedings is available in Note 9, Commitment and Contingencies.

ITEM 1A. RISK FACTORS.

The risk factors disclosed under Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2023 should be considered together with the information included in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, and should not be limited to those referenced herein or therein. The following risks and uncertainties supplement the risk factors found under Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Our business could be adversely affected as a result of uncertainty regarding proposals or other actions taken by stockholders related to the consideration of a possible future transaction.

On September 23, 2024, Danone North America PBC made an unsolicited proposal to acquire all of the shares of Company common stock that Danone does not already own for $25.00 per share (the "Proposal"). On November 4, 2024, we announced that our Board determined that the proposal substantially undervalues the Company and is not in the best interests of the Company and its stockholders or other stakeholders. Addressing the Proposal, similar future proposals and any other actions by stockholders or others relating to a potential change of control transaction involving the Company could interfere with our ability to execute our strategic plans, make it more difficult to attract and retain qualified executives and employees, cause management distraction, require us to utilize more resources than anticipated towards review of strategic alternatives and result in the loss of potential business opportunities, any of which could have a material negative impact on the Company. In addition, our business and operations may be harmed to the extent that our customers, suppliers and others believe that we cannot effectively compete in the marketplace without completing a transaction, or there is customer, supplier or employee uncertainty surrounding the future direction of our product offerings and our strategy on a continued basis. There can be no assurance that any transaction will be completed now or in the future.

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

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

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

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

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

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

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

We may be subject to continued or similar activism in the future, which could cause us to incur significant expense, hinder execution of our business strategy and adversely impact the market price of Company common stock. Stockholder actions, including potential proxy contests, require significant time and attention by management and our Board, potentially interfering with our ability to execute our strategic plan. Such stockholder action could give rise to perceived uncertainties as to our future, adversely affect our relationships with our employees, customers or suppliers and make it more difficult to attract and retain qualified personnel and business partners. These perceived uncertainties may also be exploited by our competitors and/or other stockholders, which could result in lost business opportunities and make it more difficult to execute on our long-term strategic plan. If customers choose to delay, defer or reduce transactions with us or do business with our competitors instead of us, then our business, financial condition and operating results would be adversely affected. We may be required to incur significant legal fees and other expenses related to stockholder actions, and the attention of our management may be diverted by such actions. Any of these impacts could materially and adversely affect our business, operating results and financial condition, and the market price of Company common stock could be subject to significant fluctuation or otherwise be adversely affected. If individuals are elected or appointed to our Board with a specific agenda or who do not agree with our strategic plan, the ability of our Board to function effectively could be adversely affected, which could in turn adversely affect our ability to effectively and timely implement our strategic plan and create additional value for our stockholders, and/or adversely affect our business, operating results and financial condition.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 5. OTHER INFORMATION.

During the quarter ended September 30, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408 of Regulation S-K.

ITEM 6. EXHIBITS.

No.	Description	Form	Period Ending	Exhibit	Filing Date
3.1	Certificate of Designations of Series A Junior Participating Preferred Stock of Lifeway Foods, Inc.	Filed Herewith			
4.1	Shareholder Rights Agreement, dated as of November 4, 2024, by and between Lifeway Foods, Inc. and Computershare Trust Company, N.A., as rights agent (which includes the Form of Rights Certificate as Exhibit B thereto)	8-A		4.1	11/5/2024
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, 2024 reporting Lifeway's financial results for the three months ended September 30, 2024*	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: Nov 14, 2024	By: /s/ Julie Smolyansky Julie Smolyansky Chief Executive Officer, President, and Director (Principal Executive Officer)
Date: Nov 14, 2024	By: /s/ Eric Hanson Eric Hanson Chief Financial & Accounting Officer (Principal Financial and Accounting Officer)

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Exhibit 3.1

FORM OF

CERTIFICATE OF DESIGNATIONS
OF

SERIES A JUNIOR PARTICIPATING PREFERRED STOCK
OF

LIFEWAY FOODS, INC.

Pursuant to Section 6.10 of the
Illinois Business Corporation Act

The undersigned hereby certifies that, in accordance with Section 6.10 of the Illinois Business Corporation Act, as amended (the "***IBCA***"), the board of directors (the "***Board***") of Lifeway Foods, Inc., an Illinois corporation (the "***Corporation***"), hereby makes this certificate of designations and hereby states and certifies that pursuant to the authority conferred upon the Board by the Corporation's Articles of Incorporation, as amended (as such may be further amended, restated or amended and restated from time to time, the "***Articles of Incorporation***"), and the duly adopted resolutions of the Board, and pursuant to Section 8.40 of the IBCA, the Board duly adopted the following resolutions on November 4, 2024:

RESOLVED, that pursuant to the authority vested in the Board by the Charter (which authorizes 2,500,000 shares of preferred stock, no par value ("***Preferred Stock***")), the Board hereby creates, authorizes and provides for the issue of a series of Preferred Stock, no par value, of the Corporation, to be designated "Series A Junior Participating Preferred Stock" (hereinafter referred to as the "***Series A Preferred Stock***"), initially consisting of 40,000 shares, and to the extent that the designations, powers, preferences and relative and other special rights and the qualifications, limitations or restrictions of the Series A Preferred Stock are not stated and expressed in the Charter, hereby fixes and herein states and expresses such designations, powers, preferences and relative and other special rights and the qualifications, limitations and restrictions thereof, as follows:

Section 1. **Designation and Amount.** The shares of such series shall be designated as "Series A Junior Participating Preferred Stock," and the number of shares constituting such series shall be 40,000. Such number of shares may be increased or decreased by resolution of the Board; provided, however, that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series A Preferred Stock.

Section 2. Dividends and Distributions.

(a) Subject to the prior and superior rights of the holders of any shares of any series of preferred stock ranking prior and superior to the shares of Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders of common stock, no par value, of the Corporation (the "***Common Stock***") shall be entitled to receive, when, as and if declared by the Board out of funds legally available for the purpose, quarterly dividends payable in cash on the last business day of March, June, September and December in each year (each such date being referred to herein as a "***Quarterly Dividend Payment Date***"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (i) $1,000 or (ii) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, plus 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Corporation, at any time after November 4, 2024 (the "***Rights Declaration Date***"), (x) declares any dividend on Common Stock payable in shares of Common Stock, (y) subdivides the outstanding Common Stock or (z) combines the outstanding Common Stock into a smaller number of shares, then in each case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (ii) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in Section 2(a) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided, however, that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior to and superior to the shares of Series A Preferred Stock with respect to dividends, a dividend of $1.00 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than sixty (60) days prior to the date fixed for the payment thereof.

Section 3. **Voting Rights.** The holders of shares of Series A Preferred Stock shall have the following voting rights:

(a) Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation at any time after the Rights Declaration Date (i) declares any dividend on Common Stock payable in shares of Common Stock, (ii) subdivides the outstanding Common Stock or (iii) combines the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) Except as otherwise provided herein or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock shall vote collectively as one class on all matters submitted to a vote of shareholders of the Corporation.

(c) Except as set forth herein or as otherwise provided by law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. **Certain Restrictions.**

(a) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 above are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of capital stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock other than (A) such redemptions or purchases that may be deemed to occur upon the exercise of stock options, warrants or similar rights or grant, vesting or lapse of restrictions on the grant of any performance shares, restricted stock, restricted stock units or other equity awards to the extent that such shares represent all or a portion of (x) the exercise or purchase price of such options, warrants or similar rights or other equity awards or (y) the amount of withholding taxes owed by the holder of such award in respect of such grant, exercise, vesting or lapse of restrictions; (B) such purchases necessary to satisfy the issuance of any shares upon the exercise or to satisfy the vesting and settlement of any options, warrants or similar rights or other equity awards pursuant to the terms of the Corporation's equity plans maintained for the benefit its employees, directors and other service providers; or (C) the repurchase, redemption or other acquisition or retirement for value of any such shares from employees, directors, former directors, consultants or former consultants of the Corporation or their respective estate, spouse, former spouse or family member, pursuant to the terms of the agreement pursuant to which such shares were acquired;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any capital stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock; provided, that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any capital stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of capital stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board) to all holders of such shares upon such terms as the Board, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under Section 4(a) above, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. **Reacquired Shares.** Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board, subject to the conditions and restrictions on issuance set forth herein.

Section 6. <u>Liquidation, Dissolution or Winding Up.</u>

(a) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of capital stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received $1,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "***Series A Liquidation Preference***"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Preferred Stock unless, prior thereto, the holders of shares of Common Stock have received an amount per share (the "***Common Adjustment***") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) 1,000 (as appropriately adjusted as set forth in <u>Section 6(c)</u> below to reflect such events as stock splits, reverse stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "***Adjustment Number***"). Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Preferred Stock and Common Stock, respectively, and the payment of liquidation preferences of all other shares of capital stock which rank prior to or on a parity with Series A Preferred Stock, holders of Series A Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(b) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of Preferred Stock, if any, which rank on a parity with the Series A Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(c) In the event the Corporation at any time after the Rights Declaration Date (i) declares any dividend on Common Stock payable in shares of Common Stock, (ii) subdivides the outstanding Common Stock or (iii) combines the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. <u>Consolidation, Merger, Etc.</u> In case the Corporation enters into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, for which or into which each share of Common Stock is exchanged or changed. In the event the Corporation at any time after the Rights Declaration Date (a) declares any dividend on Common Stock payable in shares of Common Stock, (b) subdivides the outstanding Common Stock or (c) combines the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. **No Redemption.** The shares of Series A Preferred Stock shall not be redeemable.

Section 9. **Ranking.** The Series A Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, whether or not upon the dissolution, liquidation or winding up of the Corporation, unless the terms of any such series provides otherwise.

Section 10. **Amendment.** The Charter shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds of the outstanding shares of Series A Preferred Stock, voting separately as a class.

Section 11. **Fractional Shares.** Series A Preferred Stock may be issued in fractions of a share that entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and have the benefit of all other rights of holders of Series A Preferred Stock.

* * * * * * *

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Designations to be executed by Julie Smolyansky, President and Chief Executive Officer, this 4th day of November, 2024.

LIFEWAY FOODS, INC.

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

EXHIBIT 31.1

CERTIFICATIONS

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: Nov 14, 2024

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

EXHIBIT 31.2

CERTIFICATIONS

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: Nov 14, 2024

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, 2024 as filed with the SEC (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to her knowledge:

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

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

Date: Nov 14, 2024

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, 2024 as filed with the SEC (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

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

Date: Nov 14, 2024

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

Lifeway Foods® Announces Strong Results for the Third Quarter and Nine Months Ended September 30, 2024

Year-to-date net sales of $139.9 million; up 18.5% year-over-year

Heightened interest in probiotic foods with bioavailable nutrients drives volume growth of Lifeway Kefir and Farmer Cheese

20th consecutive quarter of year-over-year growth

Year-to-date gross profit margin increased to 26.2%

Morton Grove, IL — November 14, 2024 — Lifeway Foods, Inc. (Nasdaq: LWAY) ("Lifeway" or "the Company"), the leading U.S. supplier of kefir and fermented probiotic products to support the microbiome, today reported financial results for the third quarter ended September 30, 2024.

"I'm thrilled to announce our 20th consecutive quarter of net sales growth, marking an impressive 5 consecutive years' worth of quarterly growth for Lifeway on the topline," commented Julie Smolyansky, President and Chief Executive Officer of Lifeway Foods. "We continued this record year by delivering our second largest quarter ever with $46.1 million in net sales, up double-digits year-over-year, driven by the continued volume growth of our flagship drinkable Lifeway Kefir. We also saw growth in our cheese category, as our strategic sales investments have capitalized on the increasing consumer interest in soft cheese products, such as our Lifeway Farmer Cheese. Our effective sales and marketing investments continue to create demand, drive trial and accelerate velocities in our core offerings, as evidenced by our remarkable, volume-led results. Recently, our strawberry banana flavor of Lifeway Kefir gained placement at select locations of our largest retail customer, with an estimated total of 1,000 stores once resets are complete in the fourth quarter. We also anticipate that our ProBugs will gain incremental distribution at around 260 stores with a regional retailer in December, and our Farmer Cheese will gain placement with a large national retailer in an estimated 1400 stores by the end of the first quarter of 2025. We will continue to strategically evaluate opportunities to elevate the exposure of our core Lifeway offerings. Interest in protein-rich foods with probiotics and bioavailable nutrients like Lifeway Kefir and Farmer Cheese is higher than ever, and we believe that, in our 38-year history, our trajectory has never been stronger."

Smolyansky continued, "The strong third quarter performance extends our track record of execution on our growth plan to consolidate our market leading position. Compared to the same period 5 years ago, the year we initiated our Lifeway 2.0 Strategic Growth Plan, our year-to-date net sales and gross profit have grown by 98.4% and 115.3%, respectively, which has led to substantial shareholder value creation. We continued to deprioritize private label manufacturing during the quarter, focusing on our branded products to protect Lifeway's category dominance and visibility, streamline operations and further improve margins. As we continue to ship higher volumes of our Lifeway branded products, we will continue to realize manufacturing efficiencies and favorable fixed cost absorption, driving operating leverage across the business. The whole Lifeway team has contributed to our strong operational execution. We are on pace for record-breaking net sales in 2024, and I believe we are poised to continue this excellent momentum into the fourth quarter and 2025."

Third Quarter 2024 Results

Net sales were $46.1 million for the third quarter ended September 30, 2024, an increase of $5.2 million or 12.7% from the same period in 2023. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir.

Gross profit as a percentage of net sales was 25.7% for the third quarter ended September 30, 2024.
Selling, general and administrative expenses as a percentage of net sales were 16.4% for the third quarter ended September 30, 2024.

The Company reported net income of $3.0 million or $0.20 per basic and $0.19 per diluted common share for the third quarter ended September 30, 2024.

Year-to-Date 2024 Results

Net sales were $139.9 million for the nine months ended September 30, 2024, an increase of $21.9 million or 18.5% from the same period in 2023. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir.

Gross profit as a percentage of net sales was 26.2% for the nine months ended September 30, 2024, an improvement when compared to the same period in 2023, due to the higher volumes of our branded products, which provided manufacturing efficiencies and favorable fixed cost absorption.

Selling, general and administrative expenses as a percentage of net sales were 16.5% for the nine months ended September 30, 2024.

The Company reported net income of $9.2 million or $0.62 per basic and $0.60 per diluted common share for the nine months ended September 30, 2024, compared to net income of $7.4 million or $0.50 per basic and $0.49 per diluted common share during the same period in 2023.

Conference Call and Webcast
A webcast with Lifeway's President and Chief Executive Officer discussing these results with additional comments and details is available through the "Investor Relations" section of the Company's website at https://lifewaykefir.com/webinars-reports/.

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

Forward-Looking Statements

This press release contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 regarding, among other things, Lifeway's outlook, expected manufacturing efficiencies and fixed cost absorption, expectations regarding future operating and financial performance, future business strategy and objectives and expected shipping to Dubai and the United Arab Emirates. These statements use words, and variations of words, such as "will," "continue," "build," "future," "increase," "drive," "believe," "look," "ahead," "confident," "deliver," "outlook," "expect," and "predict." You are cautioned not to rely on these forward-looking statements. These forward-looking statements are made as of the date of this press release, are based on current expectations of future events and thus are inherently subject to a number of risks and uncertainties, many of which involve factors or circumstances beyond Lifeway's control. If underlying assumptions prove inaccurate or known or unknown risks or uncertainties materialize, actual results could vary materially from Lifeway's expectations and projections. These risks, uncertainties, and other factors include: price competition; the decisions of customers or consumers; the actions of competitors; changes in the pricing of commodities; the effects of government regulation; possible delays in the introduction of new products; and customer acceptance of products and services. A further list and description of these risks, uncertainties, and other factors can be found in Lifeway's Annual Report on Form 10-K for the fiscal year ended December 31, 2023 and Quarterly Report on Form 10-Q for the quarter ended September 30, 2024. Copies of these filings are available online at https://www.sec.gov, http://lifewaykefir.com/investor-relations/, or on request from Lifeway. Lifeway expressly disclaims any obligation to update any forward-looking statements (including, without limitation, to reflect changed assumptions, the occurrence of anticipated or unanticipated events or new information), except as required by law.

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

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

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2024 and December 31, 2023
(In thousands)

	September 30, 2024 (Unaudited)	December 31, 2023
Current assets		
Cash and cash equivalents	$ 20,558	$ 13,198
Accounts receivable, net of allowance for credit losses and discounts & allowances of $1,320 and $1,270 at September 30, 2024 and December 31, 2023 respectively	13,495	13,875
Inventories, net	8,441	9,104
Prepaid expenses and other current assets	1,893	2,019
Refundable income taxes	379	–
Total current assets	**44,766**	**38,196**
Property, plant and equipment, net	26,310	22,764
Operating lease right-of-use asset	136	192
Goodwill	11,704	11,704
Intangible assets, net	6,493	6,898
Other assets	1,900	1,900
Total assets	**$ 91,309**	**$ 81,654**
Current liabilities		
Current portion of note payable	$ –	$ 1,250
Accounts payable	11,117	9,976
Accrued expenses	5,589	4,916
Accrued income taxes	–	474
Total current liabilities	**16,706**	**16,616**
Note payable	**–**	**1,483**
Operating lease liabilities	**79**	**118**
Deferred income taxes, net	**3,001**	**3,001**
Total liabilities	**19,786**	**21,218**
Commitments and contingencies (Note 9)		
Stockholders’ equity		
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at September 30, 2024 and December 31, 2023	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 14,816 and 14,691 outstanding at September 30, 2024 and December 31, 2023, respectively	6,509	6,509
Paid-in capital	5,915	4,825
Treasury stock, at cost	(15,883)	(16,695)
Retained earnings	74,982	65,797
Total stockholders' equity	**71,523**	**60,436**
Total liabilities and stockholders' equity	**$ 91,309**	**$ 81,654**

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the three and nine months ended September 30, 2024 and 2023
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Net sales	**$ 46,095**	**$ 40,896**	**$ 139,886**	**$ 118,030**
Cost of goods sold	33,508	29,099	101,127	85,428
Depreciation expense	720	654	2,082	1,953
Total cost of goods sold	34,228	29,753	103,209	87,381
Gross profit	**11,867**	**11,143**	**36,677**	**30,649**
Selling expense	3,979	2,884	11,256	8,974
General and administrative expense	3,564	3,085	11,877	10,028
Amortization expense	135	135	405	405
Total operating expenses	**7,678**	**6,104**	**23,538**	**19,407**
Income from operations	**4,189**	**5,039**	**13,139**	**11,242**
Other income (expense):				
Interest expense	(4)	(109)	(102)	(322)
Gain on sale of property and equipment	3	–	3	33
Other income (expense), net	138	(1)	153	(1)
Total other income (expense)	137	(110)	54	(290)
Income before provision for income taxes	**4,326**	**4,929**	**13,193**	**10,952**
Provision for income taxes	1,350	1,517	4,008	3,554
Net income	**$ 2,976**	**$ 3,412**	**$ 9,185**	**$ 7,398**
Net earnings per common share:				
Basic	$ 0.20	$ 0.23	$ 0.62	$ 0.50
Diluted	$ 0.19	$ 0.23	$ 0.60	$ 0.49
Weighted average common shares outstanding:				
Basic	14,801	14,677	14,740	14,659
Diluted	15,265	15,101	15,194	15,063

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

	Nine months ended September 30,	
	2024	**2023**
Cash flows from operating activities:		
Net income	**$ 9,185**	**$ 7,398**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	2,487	2,358
Stock-based compensation	1,898	1,078
Non-cash interest expense	17	5
Bad debt expense	–	2
Gain on sale of equipment	(3)	(33)
(Increase) decrease in operating assets:		
Accounts receivable	379	(1,683)
Inventories	663	310
Refundable income taxes	(379)	(216)
Prepaid expenses and other current assets	125	(176)
Increase (decrease) in operating liabilities:		
Accounts payable	949	928
Accrued expenses	694	1,673
Accrued income taxes	(474)	500
Net cash provided by operating activities	**15,541**	**12,144**
Cash flows from investing activities:		
Purchases of property and equipment	(5,445)	(3,146)
Proceeds from sales or equipment	14	40
Purchase of investments	–	(100)
Net cash used in investing activities	**(5,431)**	**(3,206)**
Cash flows from financing activities:		
Repayment of note payable	(2,750)	(750)
Net cash used in financing activities	**(2,750)**	**(750)**
Net increase in cash and cash equivalents	**7,360**	**8,188**
Cash and cash equivalents at the beginning of the period	13,198	4,444
Cash and cash equivalents at the end of the period	**$ 20,558**	**$ 12,632**
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	$ 4,861	$ 3,270
Cash paid for interest	$ 95	$ 343
Non-cash investing activities		
Accrued purchase of property and equipment	$ 331	$ 194
Increase in right-of-use assets and operating lease obligations	$ –	$ 86