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: June 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**

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 Aug 6, 2024: 14,790,747.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	June 30, 2024 (Unaudited)		December 31, 2023	
Current assets				
Cash and cash equivalents	$	14,633	$	13,198
Accounts receivable, net of allowance for credit losses and discounts & allowances of $1,550 and $1,270 at June 30, 2024 and December 31, 2023 respectively		14,526		13,875
Inventories, net		8,454		9,104
Prepaid expenses and other current assets		1,488		2,019
Refundable income taxes		180		–
Total current assets		**39,281**		**38,196**
Property, plant and equipment, net		25,276		22,764
Operating lease right-of-use asset		154		192
Goodwill		11,704		11,704
Intangible assets, net		6,628		6,898
Other assets		1,900		1,900
Total assets	**$**	**84,943**	**$**	**81,654**
Current liabilities				
Current portion of note payable	$	–	$	1,250
Accounts payable		9,370		9,976
Accrued expenses		4,487		4,916
Accrued income taxes		–		474
Total current liabilities		**13,857**		**16,616**
Note payable		**–**		**1,483**
Operating lease liabilities		**88**		**118**
Deferred income taxes, net		**3,001**		**3,001**
Total liabilities		**16,946**		**21,218**
Commitments and contingencies (Note 9)				
Stockholders' equity				
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at June 30, 2024 and December 31, 2023		–		–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 14,791 outstanding at June 30, 2024 and December 31, 2023		6,509		6,509
Paid-in capital		5,532		4,825
Treasury stock, at cost		(16,050)		(16,695)
Retained earnings		72,006		65,797
Total stockholders' equity		**67,997**		**60,436**
Total liabilities and stockholders' equity	**$**	**84,943**	**$**	**81,654**

See accompanying notes to consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Net sales	**$ 49,157**	**$ 39,230**	**$ 93,791**	**$ 77,134**
Cost of goods sold	35,181	27,299	67,619	56,329
Depreciation expense	701	651	1,362	1,299
Total cost of goods sold	35,882	27,950	68,981	57,628
Gross profit	**13,275**	**11,280**	**24,810**	**19,506**
Selling expense	3,577	2,571	7,277	6,090
General and administrative expense	4,177	3,808	8,313	6,943
Amortization expense	135	135	270	270
Total operating expenses	**7,889**	**6,514**	**15,860**	**13,303**
Income from operations	**5,386**	**4,766**	**8,950**	**6,203**
Other income (expense):				
Interest expense	(47)	(109)	(98)	(213)
Gain on sale of property and equipment	–	33	–	33
Other income (expense), net	20	(5)	15	–
Total other income (expense)	(27)	(81)	(83)	(180)
Income before provision for income taxes	**5,359**	**4,685**	**8,867**	**6,023**
Provision for income taxes	1,576	1,529	2,658	2,037
Net income	**$ 3,783**	**$ 3,156**	**$ 6,209**	**$ 3,986**
Net earnings per common share:				
Basic	$ 0.26	$ 0.22	$ 0.42	$ 0.27
Diluted	$ 0.25	$ 0.21	$ 0.41	$ 0.26
Weighted average common shares outstanding:				
Basic	14,727	14,654	14,709	14,649
Diluted	15,197	15,084	15,176	15,058

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**

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, 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**

See accompanying notes to consolidated financial statements

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

	Six months ended June 30,	
	2024	**2023**
Cash flows from operating activities:		
Net income	**$ 6,209**	**$ 3,986**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	1,632	1,569
Stock-based compensation	1,296	655
Non-cash interest expense	17	3
Bad debt expense	–	2
Gain on sale of equipment	–	(33)
(Increase) decrease in operating assets:		
Accounts receivable	(651)	91
Inventories	650	(39)
Refundable income taxes	(180)	40
Prepaid expenses and other current assets	531	232
Increase (decrease) in operating liabilities:		
Accounts payable	(574)	(2,526)
Accrued expenses	(366)	451
Accrued income taxes	(474)	1,024
Net cash provided by operating activities	**8,090**	**5,455**
Cash flows from investing activities:		
Purchases of property and equipment	(3,905)	(1,990)
Proceeds from sales or equipment	–	40
Net cash used in investing activities	**(3,905)**	**(1,950)**
Cash flows from financing activities:		
Repayment of note payable	(2,750)	(500)
Net cash used in financing activities	**(2,750)**	**(500)**
Net increase in cash and cash equivalents	**1,435**	**3,005**
Cash and cash equivalents at the beginning of the period	13,198	4,444
Cash and cash equivalents at the end of the period	**$ 14,633**	**$ 7,449**
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	$ 3,312	$ 973
Cash paid for interest	$ 89	$ 238
Non-cash investing activities		
Accrued purchase of property and equipment	$ 106	$ 110

See accompanying notes to consolidated financial statements

Note 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") for interim financial information, and do not include certain information and footnote disclosures required for complete, audited financial statements. In the opinion of management, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. The consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023. Results of operations for any interim period are not necessarily indicative of future or annual results.

Principles of consolidation

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

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 $2,531 and $2,006 for the six months ended June 30, 2024 and 2023, respectively. Total advertising expense was $1,159 and $543 for the three months ended June 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 guidance requires entities to report incremental information about significant segment expenses included in a segment's profit or loss measure as well as the name and title of the chief operating decision maker. The guidance also requires interim disclosures related to reportable segment profit or loss and assets that had previously only been disclosed annually. The new standard is effective for our annual period ending December 31, 2024 and our interim periods during the fiscal year ending December 31, 2025. The guidance does not affect recognition or measurement in the Company's consolidated financial statements.

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

Note 3 – Inventories, net

Inventories consisted of the following:

	June 30, 2024	December 31, 2023
Ingredients	$ 1,944	$ 2,929
Packaging	3,150	3,014
Finished goods	3,360	3,161
Total inventories, net	$ 8,454	$ 9,104

Note 4 – Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

	June 30, 2024	December 31, 2023
Land	$ 1,565	$ 1,565
Buildings and improvements	22,110	21,661
Machinery and equipment	35,217	33,573
Vehicles	705	705
Office equipment	1,072	1,072
Construction in process	3,774	2,154
	64,443	60,730
Less accumulated depreciation	(39,167)	(37,966)
Total property, plant and equipment, net	$ 25,276	$ 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 June 30, 2024	
Goodwill	$ 12,948
Accumulated impairment losses	(1,244)
	$ 11,704

Intangible Assets

Other intangible assets, net consisted of the following:

	June 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	(1,452)	1,933	3,385	(1,372)	2,013
Brand names	7,948	(3,253)	4,695	7,948	(3,063)	4,885
Formula	438	(438)	–	438	(438)	–
Total intangible assets, net	$ 16,344	$ (9,716)	$ 6,628	$ 16,344	$ (9,446)	$ 6,898

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

Year	Amortization
Six months ended December 31, 2024	$ 270
2024	$ 540
2025	$ 540
2026	$ 540
2027	$ 540

The weighted-average remaining amortization expense period for the customer relationship and brand name intangible assets is 12.1 and 12.4 years, respectively, as of June 30, 2024. The weighted-average remaining amortization expense period for total intangible assets is 12.3 years as of June 30, 2024.

Note 6 – Accrued Expenses

Accrued expenses consisted of the following:

	June 30, 2024	December 31, 2023
Payroll and incentive compensation	$ 3,309	$ 3,853
Real estate taxes	479	442
Utilities	394	241
Current portion of operating lease liabilities	66	74
Other	239	306
Total accrued expenses	$ 4,487	$ 4,916

Note 7 – Debt

Note payable consisted of the following:

	June 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 June 30, 2024.

Revolving Credit Facility

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

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

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

The Company does not record leases with an initial term of 12 months or less on the balance sheet. Expense for these short-term leases is recorded on a straight-line basis over the lease term. Total lease expense was $77 and $61 (including short term leases) for the six months ended June 30, 2024 and 2023, respectively. Total lease expense was $42 and $30 (including short term leases) for the three months ended June 30, 2024 and 2023, respectively.

Future maturities of lease liabilities were as follows:

Year	Operating Leases
Six months ended December 31, 2024	$ 42
2025	55
2026	31
2027	21
2028	17
Thereafter	10
Total lease payments	176
Less: Interest	(22)
Present value of lease liabilities	$ 154

The weighted-average remaining lease term for its operating leases was 3.4 years as of June 30, 2024. The weighted average discount rate of its operating leases was 9.25% as of June 30, 2024. Cash paid for amounts included in the measurement of lease liabilities was $46 for the six months ended June 30, 2024 and 2023. Cash paid for amounts included in the measurement of lease liabilities was $22 and $21 for the three months ended June 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 30.0% and 33.8% for the six months ended June 30, 2024 and 2023, respectively. Income taxes were recognized at effective rates of 29.4% and 32.6% for the three months ended June 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 June 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 June 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 June 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 six months ended June 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 June 30, 2024	30	$ 10.42	1.72	$ 70
Exercisable at June 30, 2024	30	$ 10.42	1.72	$ 70

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 June 30, 2024.

	Restricted Stock Units	Weighted Average Grant Date Fair Value
	(In thousands)	
Outstanding at December 31, 2023	207	$ 6.89
Granted	33	13.73
Shares issued upon vesting	(7)	6.88
Forfeited	–	–
Outstanding at June 30, 2024	233	$ 7.84
Vested and deferred at June 30, 2024	90	$ 6.93

For the six months ended June 30, 2024 and 2023 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $468 and $202, respectively. For the six months ended June 30, 2024 and 2023 tax-related benefits of $131 and $57, respectively, were also recognized. For the three months ended June 30, 2024 and 2023 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $235 and $98, respectively. For the three months ended June 30, 2024 and 2023 tax-related benefits of $66 and $29, respectively, were also recognized. Future compensation expense related to restricted stock units was $706 as of June 30, 2024 and will be recognized on a weighted average basis over the next 1.2 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 six months ended June 30, 2024 and 2023, $24 and $69 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended June 30, 2024 and 2023, $6 and $26 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of June 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 six months ended June 30, 2024 and 2023, $40 and $128 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended June 30, 2024 and 2023, $7 and $44 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of June 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 dollars per share. For the six months ended June 30, 2024 and 2023, $288 and $240 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended June 30, 2024 and 2023, $132 and $127 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively.

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

2023 Equity Award

Under the 2023 long-term incentive plan, participants can earn a specified number of target level Performance Share Units ("PSUs") contingent upon the achievement of strategic milestones during the three-year Measurement Period, which is fiscal year 2023 to 2025. The strategic milestones are 1) 3-year cumulative net revenue, and 2) 3-year cumulative adjusted EBITDA. The target number of PSU awards are weighted 50% on net revenue and 50% on adjusted EBITDA. Collectively, the participants can earn 115,622 PSUs at the target level. Participants may earn more or less than the target number of shares based on actual results, however the minimum and maximum number of shares that can be earned are bound by minimum and maximum thresholds of net revenue and adjusted EBITDA. The PSU awards will be earned and will vest, if at all, after the end of the three-year measurement period based on achievement of the milestones. The PSU awards do not vest during the three-year measurement period. The PSUs have a grant date fair value of $6.88 dollars per share. For the six months ended June 30, 2024 and 2023, $255 and $16 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended June 30, 2024 and 2023, $124 and $16 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 dollars per share. For the six months ended June 30, 2024 and 2023, $221 and $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended June 30, 2024 and 2023, $119 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 June 30, 2024, 419 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 six months ended June 30, 2024 and 2023 total contribution expense recognized in the consolidated statements of operations was $362 and $258, respectively. For the three months ended June 30, 2024 and 2023, total contribution expense recognized in the consolidated statements of operations was $169 and $108, 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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(In thousands)			
Weighted average common shares outstanding	14,727	14,654	14,709	14,649
Assumed exercise/vesting of equity awards	470	430	467	409
Weighted average diluted common shares outstanding	15,197	15,084	15,176	15,058

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 six months ended June 30:

	2024		2023	
In thousands	$	%	$	%
Drinkable Kefir other than ProBugs	77,543	83%	61,139	79%
Cheese	6,892	7%	6,721	9%
Cream and other	3,987	4%	3,551	5%
Drinkable Yogurt	2,918	3%	3,275	4%
ProBugs Kefir	1,750	2%	1,670	2%
Other dairy	701	1%	778	1%
Net Sales	93,791	100%	77,134	100%

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

	2024		2023	
In thousands	$	%	$	%
Drinkable Kefir other than ProBugs	41,010	83%	31,339	80%
Cheese	3,377	7%	3,376	9%
Cream and other	2,171	4%	1,659	4%
Drinkable Yogurt	1,382	3%	1,631	4%
ProBugs Kefir	884	2%	862	2%
Other dairy	333	1%	363	1%
Net Sales	49,157	100%	39,230	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 26% and 23% of net sales for the six months ended June 30, 2024 and 2023, respectively. Two major customers accounted for a total of approximately 27% and 22% of net sales for the three months ended June 30, 2024 and 2023, respectively.

Geographic Information

Net sales outside the of the United States represented less than 1% of total consolidated net sales for the six months and three months ended June 30, 2024 and 2023. Net sales are determined based on the destination where the products are shipped by Lifeway.

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

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. and our subsidiaries.

Cautionary Statement Regarding Forward-Looking Statements

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

- Expectations of the effect on our financial condition of claims, litigation, environmental costs, contingent liabilities and governmental and regulatory investigations and proceedings, 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.

Trends and Uncertainties

Current Macroeconomic Environment and Inflation Impact

Since 2022, we experienced inflationary and cost pressures due to volatility and disruption in the global economy which have increased our production and distribution costs. We experienced some moderation of inflationary pressures and pricing declines in certain of our input costs, such as milk, during 2023. We expect overall inflationary pressures to be moderate during 2024.

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 June 30, 2024 Compared to Three Months Ended June 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 June 30,			
	2024		2023	
	$	%	$	%
Net sales	**49,157**	**100.0%**	**39,230**	**100.0%**
Cost of goods sold	35,181	71.6%	27,299	69.6%
Depreciation expense	701	1.4%	651	1.7%
Total cost of goods sold	35,882	73.0%	27,950	71.3%
Gross profit	**13,275**	**27.0%**	**11,280**	**28.7%**
Selling expense	3,577	7.3%	2,571	6.6%
General & administrative expense	4,177	8.5%	3,808	9.7%
Amortization expense	135	0.3%	135	0.3%
Total operating expenses	**7,889**	**16.1%**	**6,514**	**16.6%**
Income from operations	**5,386**	**10.9%**	**4,766**	**12.1%**
Other income (expense):				
Interest expense	(47)	(0.1%)	(109)	(0.3%)
Gain on sale of property and equipment	–	0.0%	33	0.1%
Other income (expense), net	20	0.0%	(5)	0.0%
Total other income (expense)	(27)	(0.1%)	(81)	(0.2%)
Income before provision for income taxes	**5,359**	**10.8%**	**4,685**	**11.9%**
Provision for income taxes	1,576	3.2%	1,529	3.9%
Net income	**3,783**	**7.6%**	**3,156**	**8.0%**

Net Sales

Net sales were $49,157 for the three-month period ended June 30, 2024, an increase of $9,927 or 25.3% 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 27.0% and 28.7% in the three-month period ended June 30, 2024 and 2023, respectively. The decrease versus the prior year was primarily due to unfavorable milk pricing.

Selling Expense

Selling expenses increased by $1,006 to $3,577 during the three-month period ended June 30, 2024 from $2,571 during the same period in 2023. Selling expenses as a percentage of net sales increased to 7.3% in the three-month period ended June 30, 2024 from 6.6% 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 $369 to $4,177 during the three-month period ended June 30, 2024 from $3,808 during the same period in 2023. General and administrative expenses as a percentage of net sales decreased to 8.5% in the three-month period ended June 30, 2024 from 9.7% during the same period in 2023.

Provision for Income Taxes

The provision for income taxes was $1,576 and $1,529 during the three months ended June 30, 2024 and 2023, respectively.

The effective income tax rate for the three months ended June 30, 2024 was 29.4% compared to 32.6% 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.

Six Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023

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

	Six Months Ended June 30,			
	2024		**2023**	
	$	**%**	**$**	**%**
Net sales	**93,791**	**100.0%**	**77,134**	**100.0%**
Cost of goods sold	67,619	72.1%	56,329	73.0%
Depreciation expense	1,362	1.5%	1,299	1.7%
Total cost of goods sold	68,981	73.6%	57,628	74.7%
Gross profit	**24,810**	**26.4%**	**19,506**	**25.3%**
Selling expense	7,277	7.8%	6,090	7.9%
General & administrative expense	8,313	8.9%	6,943	9.0%
Amortization expense	270	0.3%	270	0.4%
Total operating expenses	**15,860**	**17.0%**	**13,303**	**17.3%**
Income from operations	**8,950**	**9.4%**	**6,203**	**8.0%**
Other income (expense):				
Interest expense	(98)	(0.1%)	(213)	(0.3%)
Gain on sale of property and equipment	–		33	0.0%
Other income (expense), net	15	0.0%	–	0.0%
Total other income (expense)	(83)	(0.1%)	(180)	(0.3%)
Income before provision for income taxes	**8,867**	**9.3%**	**6,023**	**7.7%**
Provision for income taxes	2,658	2.8%	2,037	2.6%
Net income	**6,209**	**6.5%**	**3,986**	**5.1%**

Net Sales

Net sales were at $93,791 for the six-month period ended June 30, 2024, an increase of $16,657 or 21.6% 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 26.4% and 25.3% during the six-month period ended June 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 $1,187 to $7,277 during the six-month period ended June 30, 2024 from $6,090 during the same period in 2023. Selling expenses as a percentage of net sales decreased to 7.8% in the three-month period ended June 30, 2024 from 7.9% during the same period in 2023.

General and Administrative Expense

General and administrative expense increased $1,370 to $8,313 during the six-month period ended June 30, 2024 from $6,943 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 $2,658 and $2,037 during the six months ended June 30, 2024 and 2023, respectively.

The effective income tax rate for the six months ended June 30, 2024 was 30.0% compared to 33.8% 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.

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 June 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:

	Six months Ended June 30,	
Net Cash Flows Provided By (Used In):	**2024**	**2023**
Operating activities	$ 8,090	$ 5,455
Investing activities	$ (3,905)	$ (1,950)
Financing activities	$ (2,750)	$ (500)

Operating Activities

Net cash provided by operating activities was $8,090 during the six-month period ended June 30, 2024 compared to $5,455 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 $3,905 during the six-month period ended June 30, 2024 compared to $1,950 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 $500 during the six-month period ended June 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 June 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 June 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 June 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 six months ended June 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 June 30, 2024. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of June 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 June 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.

There have been no material changes from the risk factors disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

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 June 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
10.1+	First Amendment to the 2022 Non-Employee Director Plan	Filed Herewith			
31.1	Rule 13a-14(a)/15d-14(a) Certification of Julie Smolyansky	Filed Herewith			
31.2	Rule 13a-14(a)/15d-14(a) Certification of Eric Hanson	Filed Herewith			
32.1	Section 1350 Certification of Julie Smolyansky*	Furnished Herewith			
32.2	Section 1350 Certification of Eric Hanson*	Furnished Herewith			
99.1	Press release dated August 13, 2024 reporting Lifeway's financial results for the three months ended June 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).

+ Indicates a management contract or compensatory plan or arrangement.
* 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: Aug 13, 2024

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

Date: Aug 13, 2024

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

EXHIBIT 10.1

FIRST AMENDMENT TO THE LIFEWAY FOODS, INC. 2022 NON-EMPLOYEE DIRECTOR EQUITY AND DEFERRED COMPENSATION PLAN

In accordance with Section 12.1 of the Lifeway Foods, Inc. 2022 Non-Employee Director Equity and Deferred Compensation Plan (the "Plan"), the Plan is hereby amended as follows:

1. Section 2.17 of the Plan is hereby amended to read in its entirety as follows:

" 2.17 "Deferred Benefit" means a benefit under the Plan for a Director who has submitted an operative Deferral Election Form pursuant to Article 7 of this Plan that results in payments governed by Section 7.4 and Article 8 of this Plan."

2. Section 2.18 of the Plan is hereby amended to read in its entirety as follows:

" 2.18 "Deferred Cash Account" means a bookkeeping record as may have been established for each Director who, prior to June 7, 2024, elected to defer some or all of their Cash Compensation as cash for a Compensation Year. Any such Deferred Cash Accounts would have been established only for purposes of measuring deferred cash and not to segregate assets or to identify assets that may or must be used to satisfy a deferred cash benefit; there was no crediting of interest, earnings, or losses on Deferred Cash Accounts. Effective June 7, 2024, Cash Compensation may no longer be deferred as cash for any Compensation Year, and any existing Deferred Cash Accounts were merged into or converted to Deferred RSU Accounts."

3. Section 2.19 of the Plan is hereby amended to read in its entirety as follows:

" 2.19 Reserved."

4. Section 2.20 of the Plan is amended to read in its entirety as follows:

" 2.20 Deferred RSU Account" means that bookkeeping record established for each Director who elects to defer some or all of their Cash Compensation and/or RSU Compensation as a Deferred Benefit. A Deferred RSU Account is established only for purposes of measuring a Deferred Benefit and not to segregate assets or to identify assets that may or must be used to satisfy a Deferred Benefit. A Deferred RSU Account will be credited with the Director's Cash Compensation and/or RSU Compensation deferred according to a Deferral Election Form and according to Section 7.4 of this Plan, as well as any amounts transferred from the Director's Deferred Cash Account pursuant to Section 7.5 of this Plan."

5. Section 2.21 of the Plan is hereby amended to read in its entirety as follows:

" 2.21 Reserved."

6. The last sentence of Section 2.31 of the Plan is hereby amended to read in its entirety as follows:

"Cash Compensation that a Director has elected to defer or that has been transferred from a Director's Deferred Cash Account to the Director's Deferred RSU Account, shall be converted to RSUs based on the Fair Market Value of Shares on the date the amount is credited to the Director's Deferred RSU Account."

7. Section 2.36 of the Plan is hereby amended to read in its entirety as follows:

“ **2.36 “Vesting Year”** means, with respect to each Grant pursuant to Article 6, the 12-month period commencing on the Grant Date and, with respect to that Grant, all subsequent 12-month periods until the RSUs are either fully vested or forfeited pursuant to the terms of the Grant and this Plan.”

8. The first sentence of Section 6.1 of the Plan is hereby amended to read in its entirety as follows:

“Each year, as of the date of the Company’s Annual Meeting or such other date as the Board shall determine, the Company may make a Grant of RSUs to each Director.”

9. Section 6.2 of the Plan is hereby amended to read in its entirety as follows:

“ **6.2 Partial Year Directors.** For individuals who become Directors after the RSU Grant was made for a year in which an RSU Grant pursuant to Section 6.1 has been made, such Directors shall receive a pro-rata RSU Grant; the pro-rata number of RSUs made under such Grant shall equal the number of RSUs granted pursuant to Section 6.1, times a fraction; the numerator of such fraction shall equal (365 – x) where x = the number of days that have elapsed since the RSU Grant under Section 6.1 for that year was made, and the denominator of such fraction shall be 365.”

10. Section 7.1(b) of the Plan is hereby amended to read in its entirety as follows:

“ (b) Reserved.”

11. Section 7.1(c) of the Plan is hereby amended to read in its entirety as follows:

“ (c) Before each Deferral Year’s Election Date, each Director will be provided with a Deferral Election Form. Under the Deferral Election Form for a single Deferral Year, a Director may elect on or before the Election Date to defer the receipt of all or part of their Cash Compensation and/or RSU Compensation granted during the Deferral Year (in 10% multiples) as a Deferred Benefit.”

12. The first sentence of Section 7.1(h) of the Plan is hereby amended to read in its entirety as follows:

“A Director’s Deferred RSU Account is not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge, and any attempt to do so is void.”

13. Section 7.3 of the Plan is hereby amended to read in its entirety as follows:

“ **7.3 Reserved**.”

14. Section 7.4 of the Plan is hereby amended to read in its entirety as follows:

“ **7.4 Deferred Benefits**.”

Deferred Benefits will be allocated to a Deferred RSU Account for each electing Director and credited with a number of RSUs pursuant to Sections 2.31 and 6.8, as applicable. The value of a Deferred RSU Account as of any date shall equal the Fair Market Value of the Shares represented by the RSUs that are allocated to such Deferred RSU Account on such date. Dividends with respect to Shares underlying Deferred Benefits will be credited to such Benefits pursuant to Section 6.8.”

15. Article 7 of the Plan is hereby amended to add the following new Section 7.5 to the end thereof:

" 7.5 Transfer from Deferred Cash Account to Deferred RSU Account.

Effective June 7, 2024, all amounts held in a Director's Deferred Cash Account shall be transferred to the Director's Deferred RSU Account. Upon transfer of an amount from a Director's Deferred Cash Account, the transferred cash will be converted to RSUs based on the Fair Market Value of Shares on the date of the transfer."

16. Section 8.1(a) of the Plan is hereby amended to read in its entirety as follows:

" (a) Deferred Benefits will be distributed in Shares of Common Stock equal to the number of whole RSUs credited to the Director's Deferred RSU Account determined as of the distribution date. However, cash will be paid in lieu of fractional RSUs credited to the Director's Deferred RSU Account."

17. Section 8.2 of the Plan is hereby amended to read in its entirety as follows:

" 8.2 Death. Upon a Director's death, their Beneficiary will receive the Beneficiary's portion of the Director's Deferred RSU Account in a lump sum payment as soon as administratively feasible following the Director's death."

18. Section 9(b) of the Plan is hereby amended to read in its entirety as follows:

" (b) For purposes of an accelerated distribution under this section, the Deferred Benefit's value is determined by the value of the Deferred RSU Account, as set out in Section 7.4, at the time of distribution."

19. Section 9(c) of the Plan is hereby amended to read in its entirety as follows:

" (c) Reserved."

20. Section 9(d) of the Plan is hereby amended to read in its entirety as follows:

" (d) A distribution under this section is in lieu of that portion of the Deferred Benefit that would have been paid otherwise. A Deferred Benefit is adjusted for a distribution under this section by reducing the value of the Director's Deferred RSU Account by the amount of the distribution."

21. Section 13.4 of the Plan is hereby amended to read in its entirety as follows:

" 13.4 Non-Assignability. Deferred Benefits and unvested RSUs may not be assigned by a Director or Beneficiary."

22. The first sentence of Section 13.5 of the Plan is hereby amended to read in its entirety as follows:
"The Plan and each RSU Grant and Deferred Benefit hereunder shall be governed by the laws of the State of Illinois, without regard to choice-of-law principles."

23. The provisions of this First Amendment shall be effective June 7, 2024, and shall apply to all previously deferred amounts in Directors' Deferred Cash Accounts under the Plan as of that date.

IN WITNESS WHEREOF, Lifeway Foods, Inc. by its duly authorized officer has caused this Amendment to be signed this 7th day of June, 2024.

LIFEWAY FOODS, INC.

By: ______________________________

Its: Chief Financial 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: Aug 13, 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: Aug 13, 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 June 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: Aug 13, 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 June 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: Aug 13, 2024

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

Exhibit 99.1

Lifeway Foods® Announces Record Results for the Second Quarter Ended June 30, 2024

Demand for Bioavailable Foods like Kefir Soars

Net sales of $49.2 million; up 25.3% year-over-year driven by volume growth of Lifeway Kefir

19th consecutive quarter of year-over-year growth

Morton Grove, IL — August 13, 2024 — Lifeway Foods, Inc. (Nasdaq: LWAY) ("Lifeway" or "the Company"), a leading U.S. supplier of kefir and fermented probiotic products to support the microbiome, today reported financial results for the second quarter ended June 30, 2024.

"Our incredible momentum continued in the second quarter as we delivered our 19th consecutive quarter of net sales growth and our 5th consecutive quarter breaking the Lifeway record on the topline," commented Julie Smolyansky, President and Chief Executive Officer of Lifeway Foods. "Our record net sales of $49.2 million were up more than 25% year-over-year, driven by continued volume growth in our flagship Lifeway drinkable kefir. Demand for bioavailable foods like Lifeway Kefir and Farmer Cheese is soaring and our customers further demonstrated their loyalty to our premium, healthy offerings. Notably, we delivered nearly $50 million in net sales, a remarkable milestone that we look forward to surpassing, and we also outperformed our previous quarterly sales record by more than 10%. Our amazing results on the topline demonstrate the effectiveness of our sales and marketing investments at driving trial, capturing new customers and accelerating velocities of our core products. Accompanying the very strong, volume-led topline growth, we continued to enhance our profitability profile with solid gross margins and strong net income growth, a testament to the seamless operational execution of our whole Lifeway team. We are thrilled with our results in the first half of 2024, and will continue to strategically invest behind the Lifeway brand to drive velocities, win new customers and position ourself to deliver more outstanding performances through the second half of this year and beyond."

Second Quarter 2024 Results

Net sales were $49.2 million for the second quarter ended June 30, 2024, an increase of $10.0 million or 25.3% 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 27.0% for the second quarter ended June 30, 2024.
Selling, general and administrative expenses as a percentage of net sales were 15.8% for the second quarter ended June 30, 2024.

The Company reported net income of $3.8 million or $0.26 per basic and $0.25 per diluted common share for the second quarter ended June 30, 2024 compared to net income of $3.2 million or $0.22 per basic and $0.21 per diluted common share during the same period in 2023.

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

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

Forward-Looking Statements

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

Media:
Derek Miller
Vice President of Communications, Lifeway Foods
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General inquiries:
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Phone: 847-967-1010
Email: info@lifeway.net

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

	June 30, 2024 (Unaudited)	December 31, 2023
Current assets		
Cash and cash equivalents	$ 14,633	$ 13,198
Accounts receivable, net of allowance for credit losses and discounts & allowances of $1,550 and $1,270 at June 30, 2024 and December 31, 2023 respectively	14,526	13,875
Inventories, net	8,454	9,104
Prepaid expenses and other current assets	1,488	2,019
Refundable income taxes	180	–
Total current assets	**39,281**	**38,196**
Property, plant and equipment, net	25,276	22,764
Operating lease right-of-use asset	154	192
Goodwill	11,704	11,704
Intangible assets, net	6,628	6,898
Other assets	1,900	1,900
Total assets	**$ 84,943**	**$ 81,654**
Current liabilities		
Current portion of note payable	$ –	$ 1,250
Accounts payable	9,370	9,976
Accrued expenses	4,487	4,916
Accrued income taxes	–	474
Total current liabilities	**13,857**	**16,616**
Note payable	**–**	**1,483**
Operating lease liabilities	**88**	**118**
Deferred income taxes, net	**3,001**	**3,001**
Total liabilities	**16,946**	**21,218**
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at June 30, 2024 and December 31, 2023	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 14,791 outstanding at June 30, 2024 and December 31, 2023	6,509	6,509
Paid-in capital	5,532	4,825
Treasury stock, at cost	(16,050)	(16,695)
Retained earnings	72,006	65,797
Total stockholders' equity	**67,997**	**60,436**
Total liabilities and stockholders' equity	**$ 84,943**	**$ 81,654**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Net sales	**$ 49,157**	**$ 39,230**	**$ 93,791**	**$ 77,134**
Cost of goods sold	35,181	27,299	67,619	56,329
Depreciation expense	701	651	1,362	1,299
Total cost of goods sold	35,882	27,950	68,981	57,628
Gross profit	**13,275**	**11,280**	**24,810**	**19,506**
Selling expense	3,577	2,571	7,277	6,090
General and administrative expense	4,177	3,808	8,313	6,943
Amortization expense	135	135	270	270
Total operating expenses	**7,889**	**6,514**	**15,860**	**13,303**
Income from operations	**5,386**	**4,766**	**8,950**	**6,203**
Other income (expense):				
Interest expense	(47)	(109)	(98)	(213)
Gain on sale of property and equipment	–	33	–	33
Other income (expense), net	20	(5)	15	–
Total other income (expense)	(27)	(81)	(83)	(180)
Income before provision for income taxes	**5,359**	**4,685**	**8,867**	**6,023**
Provision for income taxes	1,576	1,529	2,658	2,037
Net income	**$ 3,783**	**$ 3,156**	**$ 6,209**	**$ 3,986**
Net earnings per common share:				
Basic	$ 0.26	$ 0.22	$ 0.42	$ 0.27
Diluted	$ 0.25	$ 0.21	$ 0.41	$ 0.26
Weighted average common shares outstanding:				
Basic	14,727	14,654	14,709	14,649
Diluted	15,197	15,084	15,176	15,058

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

	Six months ended June 30,	
	2024	**2023**
Cash flows from operating activities:		
Net income	**$ 6,209**	**$ 3,986**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	1,632	1,569
Stock-based compensation	1,296	655
Non-cash interest expense	17	3
Bad debt expense	–	2
Gain on sale of equipment	–	(33)
(Increase) decrease in operating assets:		
Accounts receivable	(651)	91
Inventories	650	(39)
Refundable income taxes	(180)	40
Prepaid expenses and other current assets	531	232
Increase (decrease) in operating liabilities:		
Accounts payable	(574)	(2,526)
Accrued expenses	(366)	451
Accrued income taxes	(474)	1,024
Net cash provided by operating activities	**8,090**	**5,455**
Cash flows from investing activities:		
Purchases of property and equipment	(3,905)	(1,990)
Proceeds from sales or equipment	–	40
Net cash used in investing activities	**(3,905)**	**(1,950)**
Cash flows from financing activities:		
Repayment of note payable	(2,750)	(500)
Net cash used in financing activities	**(2,750)**	**(500)**
Net increase in cash and cash equivalents	**1,435**	**3,005**
Cash and cash equivalents at the beginning of the period	13,198	4,444
Cash and cash equivalents at the end of the period	**$ 14,633**	**$ 7,449**
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	$ 3,312	$ 973
Cash paid for interest	$ 89	$ 238
Non-cash investing activities		
Accrued purchase of property and equipment	$ 106	$ 110