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, 2021

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

For the transition period from __________ to __________

Commission File Number: 000-17363

LIFEWAY FOODS, INC.
(Exact Name of Registrant as Specified in its Charter)

Illinois	**36-3442829**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

6431 West Oakton, Morton Grove, IL 60053
(Address of Principal Executive Offices, Zip Code)

(847) 967-1010
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	**LWAY**	**Nasdaq Global Market**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 August 10, 2021: 15,399,842.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2021 and December 31, 2020
(In thousands)

	June 30, 2021 (Unaudited)	December 31, 2020
Current assets		
Cash and cash equivalents	$ 10,412	$ 7,926
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of $1,190 and $1,350 at June 30, 2021 and December 31, 2020 respectively	9,157	8,002
Inventories, net	7,291	6,930
Prepaid expenses and other current assets	908	1,163
Refundable income taxes	354	31
Total current assets	**28,122**	**24,052**
Property, plant and equipment, net	**20,671**	**21,048**
Operating lease right-of-use asset	**226**	**345**
Intangible assets		
Goodwill and indefinite-lived intangibles	12,824	12,824
Other intangible assets, net	–	–
Total intangible assets	**12,824**	**12,824**
Other assets	1,800	1,800
Total assets	**$ 63,643**	**$ 60,069**
Current liabilities		
Accounts payable	$ 5,285	$ 5,592
Accrued expenses	3,587	2,196
Accrued income taxes	106	653
Total current liabilities	**8,978**	**8,441**
Line of credit	**2,777**	**2,768**
Operating lease liabilities	**107**	**165**
Deferred income taxes, net	**1,764**	**1,764**
Other long-term liabilities	**12**	**77**
Total liabilities	**13,638**	**13,215**
Commitments and contingencies	–	–
Stockholders' equity		
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at June 30, 2021 and December 31, 2020	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 15,650 and 15,604 outstanding at June 30, 2021 and December 31, 2020, respectively	6,509	6,509
Paid-in capital	2,488	2,600
Treasury stock, at cost	(12,111)	(12,450)
Retained earnings	53,119	50,195
Total stockholders' equity	**50,005**	**46,854**
Total liabilities and stockholders' equity	**$ 63,643**	**$ 60,069**

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, 2021 and 2020
(Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Net sales	**$ 29,162**	**$ 25,014**	**$ 58,538**	**$ 50,402**
Cost of goods sold	20,846	17,279	41,358	35,903
Depreciation expense	639	807	1,454	1,574
Total cost of goods sold	21,485	18,086	42,812	37,477
Gross profit	**7,677**	**6,928**	**15,726**	**12,925**
Selling expenses	2,566	2,720	5,788	5,295
General and administrative	2,617	2,731	5,508	5,876
Amortization expense	–	39	–	78
Total operating expenses	**5,183**	**5,490**	**11,296**	**11,249**
Income from operations	**2,494**	**1,438**	**4,430**	**1,676**
Other income (expense):				
Interest expense	(20)	(30)	(42)	(69)
Gain on investments	–	4	2	4
Loss on sale of property and equipment	(76)	(33)	(83)	(28)
Other (expense) income, net	(49)	5	(59)	2
Total other income (expense)	(145)	(54)	(182)	(91)
Income before provision for income taxes	**2,349**	**1,384**	**4,248**	**1,585**
Provision for income taxes	731	404	1,324	459
Net income	**$ 1,618**	**$ 980**	**$ 2,924**	**$ 1,126**
Earnings (loss) per common share:				
Basic	$ 0.10	$ 0.06	$ 0.19	$ 0.07
Diluted	$ 0.10	$ 0.06	$ 0.19	$ 0.07
Weighted average common shares:				
Basic	15,639	15,560	15,622	15,591
Diluted	15,793	15,586	15,772	15,607

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, 2020	**17,274**	**$**	**6,509**	**(1,564)**	**$**	**(12,601)**	**$**	**2,380**	**$**	**46,963**	**$**	**43,251**		
Issuance of common stock in connection with stock-based compensation	–		–	27		210		306		–		516		
Treasury stock purchased	–		–	(179)		(405)		–		–		(405)		
Stock-based compensation	–		–	–		–		62		–		62		
Net income	–		–	–		–		–		146		146		
Balance, March 31, 2020	**17,274**	**$**	**6,509**	**(1,716)**	**$**	**(12,796)**	**$**	**2,748**	**$**	**47,109**	**$**	**43,570**		
Issuance of common stock in connection with stock-based compensation	–		–	34		248		(270)		–		(22)		
Stock-based compensation	–		–	–		–		109		–		109		
Net income	–		–	–		–		–		980		980		
Balance, June 30, 2020	**17,274**	**$**	**6,509**	**(1,682)**	**$**	**(12,548)**	**$**	**2,587**	**$**	**48,089**	**$**	**44,637**		

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

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

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,	
	2021	**2020**
Cash flows from operating activities:		
Net income	**$ 2,924**	**$ 1,126**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	1,454	1,652
Non-cash interest expense	9	12
Non-cash rent expense	51	(38)
Bad debt expense	(1)	(4)
Deferred revenue	(15)	(48)
Stock-based compensation	301	232
Deferred income taxes	–	369
Loss (gain) on sale of property and equipment	83	28
(Increase) decrease in operating assets:		
Accounts receivable	(1,154)	(1,041)
Inventories	(361)	(262)
Refundable income taxes	(323)	65
Prepaid expenses and other current assets	255	502
Increase (decrease) in operating liabilities:		
Accounts payable	(305)	(172)
Accrued expenses	1,276	(448)
Accrued income taxes	(547)	(62)
Net cash provided by operating activities	**3,647**	**1,911**
Cash flows from investing activities:		
Purchases of property and equipment	(1,161)	(728)
Proceeds from sale of property and equipment	–	5
Net cash used in investing activities	**(1,161)**	**(723)**
Cash flows from financing activities:		
Purchase of treasury stock	–	(405)
Net cash used in financing activities	**–**	**(405)**
Net increase in cash and cash equivalents	**2,486**	**783**
Cash and cash equivalents at the beginning of the period	7,926	3,836
Cash and cash equivalents at the end of the period	**$ 10,412**	**$ 4,619**
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	$ 2,194	$ 82
Cash paid for interest	$ 33	$ 61
Non-cash investing activities		
Increase (decrease) in right-of-use assets and operating lease obligations	$ 27	$ (58)
Non-cash financing activities		
Issuance of common stock under equity incentive plans	$ –	$ 522

See accompanying notes to consolidated financial statements

Note 1 – Basis of Presentation

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 all of the information and 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. Results of operations for interim periods are not necessarily indicative of the results to be expected for other interim periods or the full year.

A detailed description of our significant accounting policies can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Principles of consolidation

Our 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 – 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.

Revenue recognition

We sell food and beverage products across select product categories to customers predominantly within the United States (see Note 12, Segments, Products and Customers). We also sell bulk cream, a byproduct of our fluid milk manufacturing process. In accordance with ASC 606, Revenue from Contracts with Customers, we recognize revenue when control over the products transfers to our customers, which generally occurs upon delivery to our customers or their common carriers. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services, using the five-step method required by ASC 606.

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

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

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

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

Key sales terms, such as pricing and quantities ordered, are established on a frequent basis such that most customer arrangements and related incentives have a one year or shorter duration. As such, we do not capitalize contract inception costs and we capitalize product fulfillment costs in accordance with U.S. GAAP and our inventory policies. We do not have any significant deferred revenue or unbilled receivables at the end of a period. We generally do not receive noncash consideration for the sale of goods, nor do we grant payment financing terms greater than one year.

Advertising and promotional costs

Lifeway expenses advertising costs as incurred. For the six months ended June 30, 2021 and 2020 total advertising expenses were $2,166 and $1,320 respectively. For the three months ended June 30, 2021 and 2020 total advertising expenses were $773 and $784, respectively.

Recent accounting pronouncements

Adopted

In December 2019, the FASB issued Accounting Standards Update ("ASU") No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The new guidance is intended to enhance and simplify various aspects of the accounting for income taxes. The new guidance eliminates certain exceptions to the general approach to the income tax accounting model and adds new guidance to reduce the complexity in accounting for income taxes. The Company adopted this guidance on January 1, 2021. The adoption of this standard did not have a material impact on our consolidated financial statements and disclosures.

Issued but not yet effective

In March 2020, the FASB issued Accounting Standards Update ("ASU") No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The guidance will be effective prospectively as of March 12, 2020 through December 31, 2022 and interim periods within those fiscal years. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, in November 2018 issued an amendment, ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, and in November 2019 issued two amendments, ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates, and ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses. The series of new guidance amends the impairment model by requiring entities to use a forward-looking approach based on expected losses rather than incurred losses to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses. The guidance should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. The guidance is effective for annual periods beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

Note 3 – Inventories, net

Inventories consisted of the following:

	June 30, 2021	December 31, 2020
Ingredients	$ 1,862	$ 1,725
Packaging	2,479	2,234
Finished goods	2,950	2,971
Total inventories	$ 7,291	$ 6,930

Note 4 – Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

	June 30, 2021	December 31, 2020
Land	$ 1,565	$ 1,565
Buildings and improvements	17,795	17,834
Machinery and equipment	31,723	31,707
Vehicles	778	778
Office equipment	862	857
Construction in process	440	228
	53,163	52,969
Less accumulated depreciation	(32,492)	(31,921)
Total property, plant and equipment, net	$ 20,671	$ 21,048

Note 5 – Goodwill and Intangible Assets

Goodwill and indefinite-lived intangible assets consisted of the following:

	June 30, 2021	December 31, 2020
Gross goodwill	$ 10,368	$ 10,368
Accumulated impairment losses	(1,244)	(1,244)
Goodwill	9,124	9,124
Brand names	3,700	3,700
Goodwill and indefinite-lived intangible assets	$ 12,824	$ 12,824

Finite-lived Intangible Assets

Other intangible assets, net consisted of the following:

	June 30, 2021	December 31, 2020
Recipes	$ 44	$ 44
Customer lists and other customer related intangibles	4,529	4,529
Customer relationship	985	985
Trade names	2,248	2,248
Formula	438	438
	8,244	8,244
Accumulated amortization	(8,244)	(8,244)
Other intangible assets, net	$ –	$ –

Note 6 – Accrued Expenses

Accrued expenses consisted of the following:

	June 30, 2021	December 31, 2020
Payroll and incentive compensation	$ 2,722	$ 1,366
Real estate taxes	382	341
Current portion of operating lease liabilities	169	179
Other	314	310
Total accrued expenses	$ 3,587	$ 2,196

Note 7 – Debt

Line of Credit

On May 7, 2018, Lifeway entered into an Amended and Restated Loan and Security Agreement (the "Revolving Credit Facility") with its existing lender. On April 10, 2019, effective March 31, 2019, Lifeway entered into the First Modification to the Amended and Restated Loan and Security Agreement (the "Modified Revolving Credit Facility") with its existing lender. Under the amendment, the Modified Revolving Credit Facility provides for a revolving line of credit up to a maximum of $9 million (the "Revolving Loan") with an incremental facility not to exceed $5 million (the "Incremental Facility" and together with the Revolving Loan, the "Loans").

On December 10, 2019, Lifeway entered into the Second Modification to the Amended and Restated Loan and Security Agreement, as amended, (the "Second Modification") with its existing lender. The Second Modification amends the Amended and Restated Loan and Security Agreement, as amended, by redefining the "Borrowing Base" and further clarifying the definitions of "Eligible Accounts" and "Eligible Inventory." The "Borrowing Base" under this amendment means, generally, an amount equal to the sum of (a) 85% of the unpaid amount of all eligible accounts receivable, plus (b) 50% of the value of all eligible inventory. The Second Modification also addresses the calculation of interest after the potential discontinuance of LIBOR and its replacement with a replacement benchmark interest rate.

On September 30, 2020, Lifeway entered into the Third Modification to the Amended and Restated Loan and Security Agreement, as amended, (the "Third Modification") with its existing lender. The Third Modification amends the Amended and Restated Loan and Security Agreement, as amended, by removing the monthly borrowing base reporting requirement effective September 30, 2020, including a covenant to maintain a quarterly minimum working capital financial covenant, as defined, of no less than $11.25 million each of the fiscal quarters commencing the fiscal quarter ending December 31, 2020 through the expiration date, and eliminating the tier interest pricing structure. The Amended and Restated Loan and Security Agreement continues to provide Lifeway with a revolving line of credit up to a maximum of $5 million (the "Revolving Loan") and provides the Borrowers with an incremental facility not to exceed $5 million (the "Incremental Facility" and together with the Revolving Loan, the "Loans"). The Termination Date of the Revolving Loan was extended to June 30, 2025, unless earlier terminated.

Except as described above, as amended, the Modified Revolving Credit Facility remains substantively unchanged and in full force and effect, including customary representations, warranties, and covenants on the part of Lifeway, including financial covenants requiring us to maintain a fixed charge coverage ratio of no less than 1.25 to 1.00 each of the fiscal quarters ending through the expiration date. The Modified Revolving Credit Facility continues to provide for events of default, including failure to repay principal and interest when due and failure to perform or violation of the provisions or covenants of the agreement, as a result of which amounts due under the Modified Revolving Credit Facility may be accelerated. The loans and all other amounts due and owed under the Revolving Credit Facility and related documents are secured by substantially all of our assets.

As of June 30, 2021, we had $2,777, outstanding under the Revolving Credit Facility. We had $2,223 available for future borrowings as of June 30, 2021.

As amended, all outstanding amounts under the Loans bear interest, at Lifeway's election, at either the lender Base Rate (the Prime Rate minus 1.00%) or the LIBOR plus 1.95%, payable monthly in arrears. Lifeway is also required to pay a quarterly unused line fee of 0.20% and, in conjunction with the issuance of any letters of credit, a letter of credit fee of 0.20%. Lifeway's interest rate on debt outstanding under our Revolving Credit Facility as of June 30, 2021 was 2.15%.

We were in compliance with the fixed charge coverage ratio and minimum working capital covenants at June 30, 2021.

Note 8 – Leases

Lifeway has operating leases for two retail stores for its Lifeway Kefir Shop subsidiary which includes fixed base rent payments as well as variable rent payments to reimburse the landlord for operating expenses and taxes. The Company terminated its office space leases in June 2020. The Company also 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 1 year to 4 years. Some of our leases include options to extend the leases for up to 5 years and have been included in our calculation of the right-of-use asset and lease liabilities. Lifeway includes only fixed payments for lease components in the measurement of the right-of-use asset and lease liability. Variable lease payments are those that vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time. There are no residual value guarantees. We do not currently have leases which meet the finance lease classification as defined under ASC 842.

We do 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 $169 and $311 (including short term leases) for the six months ended June 30, 2021 and 2020, respectively. Total lease expense was $91 and $132 (including short term leases) for the three months ended June 30, 2021 and 2020, respectively.

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, we direct the use of the asset and obtain 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. We have elected the practical expedient to combine lease and non-lease components into a single component for all of its leases. For many of our leases such as real estate leases, we are unable to determine an implicit rate; therefore, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments for those leases. We include 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 we will exercise such options. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

Future maturities of lease liabilities were as follows:

Year	Operating Leases
Six months ended December 31, 2021	$ 97
2022	162
2023	24
2024	7
2025	5
Thereafter	2
Total lease payments	297
Less: Interest	(21)
Present value of lease liabilities	$ 276

The weighted-average remaining lease term for our operating leases was 1.87 years as of June 30, 2021. The weighted average discount rate of our operating leases was 7.84% as of June 30, 2021. Cash paid for amounts included in the measurement of lease liabilities was $107 and $272 the six months ended June 30, 2021 and 2020, respectively. Cash paid for amounts included in the measurement of lease liabilities was $52 and $130 for the three months ended June 30, 2021 and 2020, respectively.

Note 9 – Commitments and contingencies

Litigation

Lifeway is engaged in various legal actions, claims, audits, and proceedings arising in the normal course of business, including commercial disputes, product liabilities, intellectual property matters and employment-related matters resulting from our business activities.

We record accruals for outstanding legal matters when we believe it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. We evaluate, 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, we do not establish an accrued liability. Currently, none of our accruals for outstanding legal matters are material individually or in the aggregate to our 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 our business, financial condition, results of operations, or cash flows. However, if we ultimately are required to make payments in connection with an adverse outcome, it is possible that it could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Lifeway's contingencies are subject to substantial uncertainties, including for each such contingency the following, among other factors: (i) the procedural status of the case; (ii) whether the case has or may be certified as a class action suit; (iii) the outcome of preliminary motions; (iv) the impact of discovery; (v) whether there are significant factual issues to be determined or resolved; (vi) whether the proceedings involve a large number of parties and/or parties and claims in multiple jurisdictions or jurisdictions in which the relevant laws are complex or unclear; (vii) the extent of potential damages, which are often unspecified or indeterminate; and (viii) the status of settlement discussions, if any, and the settlement posture of the parties. Consequently, Lifeway cannot predict with any reasonable certainty the timing or outcome of such contingencies, and we are unable to estimate a possible loss or range of loss.

Note 10 – Income taxes

For each interim period, Lifeway estimates the effective tax rate expected to be applicable for the full year and applies that rate to income before provision for income taxes for the period. The effective tax rate for the six months ended June 30, 2021 was 31.2% compared to 29.0% for the six months ended June 30, 2020. The effective tax rate for the three months ended June 30, 2021 was 31.1% compared to 29.8% for the three months ended June 30, 2020. Our effective tax rate may change from period to period based on recurring and non-recurring factors including the relative mix of pre-tax earnings (or losses), the underlying income tax rates applicable to various state and local taxing jurisdictions, enacted tax legislation, the impact of non-deductible items, changes in valuation allowances, and the expiration of the statute of limitations in relation to unrecognized tax benefits. We record discrete income tax items such as enacted tax rate changes and completed tax audits in the period in which they occur.

On March 27, 2020, the "Coronavirus Aid, Relief, and Economic Security Act" (the CARES Act) was enacted. The CARES act features several tax provisions and other measures that assist businesses impacted by the economic effects of the COVID-19 pandemic. The significant tax provisions include an increase in the limitation of the tax deduction for interest expense from 30% to 50% of adjusted earnings in 2019 and 2020, a five-year carryback allowance for net operating losses generated in tax years 2018-2020, increased charitable contribution limitations to 25% of taxable income in 2020, and a retroactive technical correction to the 2017 Tax Cuts and Jobs Act that makes qualified improvement property placed in service after December 31, 2017 eligible for bonus depreciation. The Company has recorded a $245 income tax benefit related to the net operating loss carryback provisions of the CARES Act for the six months ended June 30, 2020.

Unrecognized tax benefits were $97 and $92 at June 30, 2021 and 2020, respectively. We do not expect material changes to our unrecognized tax benefits during the next twelve months. The Company believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If a tax audit is resolved in a manner inconsistent with its expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. We do not expect material changes to our unrecognized tax benefits during the next twelve months.

Note 11 – Stock-based and Other Compensation

In December 2015, Lifeway stockholders approved the 2015 Omnibus Incentive Plan, which authorized the issuance of an aggregate of 3.5 million shares to satisfy awards of stock options, stock appreciation rights, unrestricted stock, restricted stock, restricted stock units, performance shares and performance units to qualifying employees. Under the Plan, the Board or its Audit and Corporate Governance Committee approves stock awards to executive officers and certain senior executives, generally in the form of restricted stock or performance shares. The number of performance shares that participants may earn depends on the extent to which the corresponding performance goals have been achieved. Stock awards generally vest over a three-year performance or service period. At June 30, 2021, 3.281 million shares remain available under the Omnibus Incentive Plan. While we plan to continue to issue awards pursuant to the Plan at least annually, we may choose to suspend the issuance of new awards in the future and may grant additional awards at any time including issuing special grants of restricted stock, restricted stock units, and stock options to attract and retain new and existing executives.

Stock Options

The following table summarizes stock option activity during the six months ended June 30, 2021:

	Options		**Weighted average exercise price**	**Weighted average remaining contractual life**		**Aggregate intrinsic value**
Outstanding at December 31, 2020	41	$	10.42	5.22	$	–
Granted	–		–	–		–
Exercised	–		–	–		–
Forfeited	–		–	–		–
Outstanding at June 30, 2021	41	$	10.42	4.72	$	–
Exercisable at June 30, 2021	41	$	10.42	4.72	$	–

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

Restricted Stock Awards

A Restricted Stock Award ("RSA") represents the right to receive one share of common stock in the future. RSAs have no exercise price. The grant date fair value of the awards is equal to our closing stock price on the grant date. The following table summarizes RSA activity during the three months ended June 30, 2021.

		RSA's
Outstanding at December 31, 2020		78
Granted		4
Shares issued upon vesting		(8)
Forfeited		–
Outstanding at June 30, 2021		74
Weighted average grant date fair value per share outstanding	$	2.86

We expense RSA's over the service period. For the six months ended June 30, 2021 and 2020 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $69 and $23, respectively. For the six months ended June 30, 2021 and 2020 tax-related benefits of $20 and $6, respectively, were also recognized. For the three months ended June 30, 2021 and 2020 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $33 and $18, respectively. For the three months ended June 30, 2021 and 2020 tax-related benefits of $9 and $5, respectively, were also recognized. As of June 30, 2021, the total remaining unearned compensation related to non-vested RSA's was $76, which is expected to be amortized over the weighted-average remaining service period of 1.18 years.

Long-Term Incentive Plan Compensation

Lifeway established long-term incentive-based compensation programs for fiscal year 2017 (the “2017 Plan”) and for fiscal year 2019 (the “2019 Plan”) for certain senior executives and key employees (the “participants”). Under the 2017 Plan, long-term incentive compensation is based on Lifeway’s achievement of certain sales and adjusted EBITDA performance levels versus respective targets established by the Board for each fiscal year. Under the 2019 Plan, long-term equity incentive compensation is based on Lifeway’s achievement of four strategic milestones over a three-year period from Fiscal 2019 through Fiscal 2021.

2017 Plan

Under the 2017 Plan, collectively the participants had the opportunity to earn cash and equity-based incentive compensation in amounts ranging from $0 to $11,025 depending on Lifeway’s performance levels compared to the respective targets and the participants performance compared to their individual objectives. The equity portion of the incentive compensation is payable in restricted stock that vests one-third in each of the three years from the 2017 grant dates. For the six months ended June 30, 2021 and 2020, $0 and $49 was expensed under the 2017 Plan as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended June 30, 2021 and 2020, $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of June 30, 2021, there was no remaining expense.

2019 Plan

Under the 2019 Plan, collectively the participants can earn equity-based incentive compensation in amounts ranging from $0 to $1,776 depending on Lifeway’s performance levels compared to the respective targets. The equity-based incentive compensation is payable in restricted stock that vests 50% of unvested shares in year one, 50% of unvested shares in year two, and 100% of remaining unvested shares in year three from the 2019 grant date. For the six months ended June 30, 2021 and 2020, $54 and $89 was expensed under the 2019 Plan as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended June 30, 2021 and 2020, $35 and $76 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively.

2019 Retention Award

During Q1 2019, we awarded a special retention grant (the “2019 Retention Award”) of restricted stock to certain senior executives and key employees (the “participants”). The equity-based incentive compensation is payable in restricted stock that vests one-third in March 2019, one-third in March 2020 and one-third in March 2021. For the six months ended June 30, 2021 and 2020, $8 and $58 was expensed under the 2020 Retention Award as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended June 30, 2021 and 2020, $0 and $15 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of June 30, 2021, there was no remaining expense.

2020 CEO Incentive Award

During the fourth quarter 2020, we awarded a long-term equity-based incentive of $750 to our Chief Executive Officer (the “2020 CEO Award”) depending on Lifeways 2020 performance levels compared to the respective targets. The equity-based incentive compensation is payable in restricted stock that vests one-third in April 2022, one-third in April 2023, and one-third in April 2024. The issuance of vested equity awards is subject to approval under the Stock Purchase Agreement dated October 1, 1999. For the six months ended June 30, 2021 and 2020, $170 and $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended June 30, 2021 and 2020, $80 and $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of June 30, 2021, the total remaining unearned compensation was $537, of which $175 will be recognized in 2021, $232 in 2022, $106 in 2023, and $24 in 2024, respectively, subject to vesting. During Q2 2021, the number of shares awarded became fixed and determinable. Therefore, the award liability was reclassified from long-term liabilities to paid in capital.

Retirement Benefits

Lifeway has a defined contribution plan which is available to substantially all full-time employees. Under the terms of the plan, we match employee contributions under a prescribed formula. For the six months ended June 30, 2021 and 2020 total contribution expense recognized in the consolidated statements of operations was $218 and $214, respectively. For the three months ended June 30, 2021 and 2020 total contribution expense recognized in the consolidated statements of operations was $105 and $96, respectively.

Note 12 – Segments, Products and Customers

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

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

Our product categories are:

- Drinkable Kefir, sold in a variety of organic and non-organic sizes, flavors, and types, including low-fat, non-fat, whole milk, protein, and BioKefir (a 3.5 oz. kefir with additional probiotic cultures).
- European-style soft cheeses, including farmer cheese, white cheese, and Sweet Kiss.
- Cream and other, which consists primarily of cream, a byproduct of making our kefir.
- ProBugs, a line of kefir products designed for children.
- Other Dairy, which includes Cupped Kefir and Icelandic Skyr, a line of strained kefir and yogurt products in resealable cups.
- Frozen Kefir, available in soft serve and pint-size containers.

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

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

	2021		2020	
	$	%	$	%
Drinkable Kefir other than ProBugs	$ 48,373	82%	$ 40,003	79%
Cheese	6,221	11%	6,514	13%
Cream and other	1,691	3%	1,432	3%
ProBugs Kefir	1,431	2%	1,317	3%
Other dairy	698	1%	808	1%
Frozen Kefir (a)	124	1%	328	1%
Net Sales	$ 58,538	100%	$ 50,402	100%

(a) Includes Lifeway Kefir Shop sales

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

	2021		2020	
	$	%	$	%
Drinkable Kefir other than ProBugs	$ 24,170	82%	$ 20,146	80%
Cheese	3,022	11%	3,254	13%
Cream and other	828	3%	651	3%
ProBugs Kefir	751	2%	457	2%
Other dairy	314	1%	437	2%
Frozen Kefir (a)	77	1%	69	0%
Net Sales	$ 29,162	100%	$ 25,014	100%

(a) Includes Lifeway Kefir Shop sales

Significant Customers – Sales are predominately to companies in the retail food industry located within the United States. Two major customers accounted for approximately 22% and 21% of net sales for the six months ended June 30, 2021 and 2020, respectively. Two major customers accounted for approximately 23% and 21% of net sales for the three months ended June 30, 2021 and 2020, respectively.

Note 13 – Related Party Transactions

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

Service fees earned by the Chairperson are included in general and administrative expenses in the accompanying consolidated statements of operations and were $250 and $500 during each of the six months ended June 30, 2021 and 2020, respectively. Service fees earned are included in general and administrative expenses in the accompanying consolidated statements of operations and were $125 and $250 during each of the three months ended June 30, 2021 and 2020, respectively. During the six months ended June 30, 2021, the Company recorded $188 related to estimated earnings under the fiscal year 2021 annual performance fee target. During the three months ended June 30, 2021, the Company recorded $94 related to estimated earnings under the fiscal year 2021 annual performance fee target. This amount is included in general and administrative expenses in the accompanying consolidated statements of operations.

Lifeway is also a party to a royalty agreement with the Chairperson of its board of directors under which we pay the Chairperson a royalty based on the sale of certain Lifeway products, not to exceed $50 in any fiscal month. Royalties earned by the Chairperson are included in selling expenses in the accompanying consolidated statements of operations and were $300 during the six months ended June 30, 2021 and 2020. Royalties earned are included in selling expenses in the accompanying consolidated statements of operations and were $150 during each of the three months ended June 30, 2021 and 2020.

Note 14 – COVID-19

The ultimate impact that the COVID-19 pandemic or any future pandemic or disease outbreak will have on our business and our consolidated results of operations is uncertain.

To date we have seen increased customer and consumer demand for our products as consumers initially began pantry loading and have increased their at-home consumption as a result of social distancing and stay-at-home and work-from-home mandates and recommendations. However, this increased customer and consumer demand may decrease in the coming months if and when the need for social distancing and stay-at-home and work-from-home mandates and recommendations decrease, and we are unable to predict the nature and timing of when that impact may occur, if at all.

Although to date we have not experienced supply chain constraints, and we have continued to be able to fully satisfy customer and consumer demand for our products, the continued unprecedented demand for food and other consumer packaged goods products as a result of the COVID-19 pandemic or any future pandemic may limit the availability of, or increase the cost of, ingredients, packaging and other raw materials necessary to produce our products, and our operations may be negatively impacted. Additionally, pandemics or disease outbreaks could result in a widespread health crisis that could adversely affect economies and financial markets, consumer spending and confidence levels resulting in an economic downturn that could affect customer and consumer demand for our products.

Our efforts to manage and mitigate these factors may be unsuccessful, and the effectiveness of these efforts depends on factors beyond our control, including the duration and severity of any pandemic or disease outbreak, as well as third party actions taken to contain its spread and mitigate public health effects.

The ultimate impact of the COVID-19 pandemic on our business will depend on many factors, including, among others, the duration of social distancing and stay-at-home and work-from-home mandates and recommendations and whether additional waves of COVID-19 or different variants of COVID-19 will affect the United States and other markets, our ability and the ability of our suppliers to continue to operate our and their manufacturing facilities and maintain the supply chain without material disruption and procure ingredients, packaging and other raw materials when needed despite unprecedented demand in the food industry, and the extent to which macroeconomic conditions resulting from the pandemic and the pace of the subsequent recovery may impact consumer eating and shopping habits. We cannot predict the duration or scope of the disruption. Therefore, the financial impact cannot be reasonably estimated at this time.

Note 15 – Subsequent Event

On August 3, 2021, the Company entered into an asset purchase agreement to acquire certain assets of Glenoaks Farms Inc., a California corporation. Glen Oaks is engaged in the business of the manufacture, development, and sale of probiotic drinkable yogurt. Upon the closing of the transaction contemplated by the Purchase Agreement, the Company will acquire all of Seller's right, title and interest in, to and under certain assets and rights of Seller under certain of Seller’s agreements (collectively, the “Purchased Assets”), including the rights, and contracts with a co-manufacturer, to produce the Seller’s probiotic drinkable yogurt products and intellectual property related thereto. The purchase price to be paid by the Company as consideration for such assets is $5,800,000, subject to certain adjustments. The Company is not assuming any liabilities of Seller. The Purchase Agreement contains customary representations and warranties, covenants, and indemnities of the parties thereto, including restrictive covenants of the Seller and its affiliates with respect to non-competition, non-solicitation, and confidentiality obligations.

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, 2020 (the "Form 10-K"). Unless otherwise specified, any description of "our", "we", and "us" in this MD&A refer to Lifeway Foods, Inc. and our subsidiaries.

Cautionary Statement Regarding Forward-Looking Statements

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

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

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

- The actions of our competitors and customers, including those related to price competition;
- The decisions of customers or consumers;
- Our ability to successfully implement our business strategy;
- Changes in the pricing of commodities
- The effects of government regulation;
- The impact of the COVID-19 outbreak on our business, suppliers, consumers, customers, and employees;
- Disruptions to our supply chain, or our manufacturing and distribution capabilities, including those due to cybersecurity threats and the COVD-19 outbreak; and
- Such other factors as discussed throughout Part I, Item 1 "Business"; Part I, Item 1A "Risk Factors"; and Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2020 and that are described from time to time in our filings with the SEC.

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

Recent Developments

COVID-19 Pandemic Impact

In December 2019, a novel coronavirus disease ("COVID-19") was first reported and subsequently characterized by the World Health Organization ("WHO") as a pandemic in March 2020. In an effort to reduce the global transmission of COVID-19, various policies and initiatives have been implemented by governments around the world, including orders to close businesses not deemed "essential", shelter-in-place orders enacted by state and local governments, and the practice of social distancing measures when engaging in essential activities. Lifeway has seen increased orders from retail customers in response to increased consumer demand for food at home in response to government mandated social distancing and shelter in place orders in the United States and the immune boosting quality of our products.

Local, state, and national governments continue to emphasize the importance of food supply during this pandemic and asked that food manufacturers and retailers remain open to meet the needs of our communities. The health and safety of our employees throughout this pandemic is paramount, and we have taken numerous steps to keep our employees safe including enhanced sanitation protocols, implementation of social distancing measures at our manufacturing operations, masks and personal protective equipment for employees across our facilities, preventative temperature screenings across all manufacturing locations, the rollout of new benefits that help support our employees and their families, and remote work arrangements for administrative support functions to comply with shelter-in-place orders. In addition, a cross-functional task force has been established to monitor and coordinate the Company's response to COVID-19.

During the first quarter of 2020, Management, anticipating the spread of COVID-19 and its effects, implemented a plan to mitigate effects of COVID-19 on supply and transportation of materials used to make and package our products, staffing, and transportation of our products to customers. Management’s proactive planning allowed the Company to avoid disruption to its manufacturing facilities and production, transportation, and sales and to meet the increased demand without delay. The Company has full production capacity available at all locations at this time and does not anticipate manufacturing or staffing disruptions in the near term.

Results of Operations

Three Months Ended June 30, 2021 Compared to Three Months Ended June 30, 2020

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,			
	2021		2020	
	$	%	$	%
Net sales	29,162	100.0%	25,014	100.0%
Cost of goods sold	20,846	71.5%	17,279	69.1%
Depreciation expense	639	2.2%	807	3.2%
Total cost of goods sold	21,485	73.7%	18,086	72.3%
Gross profit	7,677	26.3%	6,928	27.7%
Selling expenses	2,566	8.8%	2,720	10.9%
General & administrative expenses	2,617	9.0%	2,731	10.9%
Amortization expense	–	0.0%	39	0.1%
Total operating expenses	**5,183**	**17.8%**	**5,490**	**21.9%**
Income from operations	**2,494**	**8.6%**	**1,438**	**5.7%**
Other income (expense):				
Interest expense	(20)	(0.1%)	(30)	(0.1%)
Gain on investments	–	0.0%	4	0.0%
Loss on sales or property and equipment	(76)	(0.2%)	(33)	(0.1%)
Other Income, net	(49)	(0.2%)	5	0.0%
Total other income (expense)	(145)	(0.5%)	(54)	(0.2%)
Income before provision for income taxes	**2,349**	**8.1%**	**1,384**	**5.5%**
Provision for income taxes	731	2.5%	404	1.6%
Net income	**1,618**	**5.5%**	**980**	**3.4%**

Net Sales

Net sales finished at $29,162 for the three-month period ended June 30, 2021, an increase of $4,148 or 16.6% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir. Approximately 50% of the increase results from the Farmers to Families Food Box program with the United States Department of Agriculture ("USDA") which began during the middle of the first quarter of 2021 and ended during May 2021.

Gross Profit

Gross profit as a percentage of net sales was 26.3% during the three-month period ended June 30, 2021. Gross profit percentage was 27.7% in the prior year. The decrease versus the prior year was primarily due to the unfavorable impact of milk pricing, and to a lesser extent the increased pricing of other inputs, partially offset by the decrease in depreciation expense.

Selling Expenses

Selling expenses decreased by $154 to $2,566 during the three-month period ended June 30, 2021 from $2,720 during the same period in 2020. The decrease versus prior year was primarily due to favorable compensation expense.

General and Administrative Expenses

General and administrative expenses decreased $114 to $2,617 during the three-month period ended June 30, 2021 from $2,731 during the same period in 2020. The decrease is primarily a result of lower compensation expense due to organizational changes made in 2020 and lower professional fees.

Provision for Income Taxes

The provision for income taxes includes federal, state and local income taxes. The provision for income taxes was $731 and $404 during the three months ended June 30, 2021 and 2020, respectively.

Our effective income tax rate for the three months ended June 30, 2021 was 31.1% compared to 29.8% in the same period last year. During the first quarter of 2020, the company's effective tax rate was reduced due to provisions of the CARES Act. That law provided for the carryback of certain net operating losses to years in which the tax rates were significantly higher. The tax benefit was recorded as a discrete item in the first quarter of 2020. The statutory Federal and state tax rates remained consistent from 2020 to 2021. The Company has a number of items that are nondeductible or are discrete adjustments to tax expense. Although similar items were reflected in 2021, the percentage effect is lower due to the increase in pre-tax income in 2021 compared to 2020.

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

Section 162(m) of the Internal Revenue Code (the "Code") limits the deductibility of compensation paid to certain of our executives. Under the Tax Cuts and Jobs Act (the "Act") amendments to Section 162(m), no tax deduction in taxable years beginning after December 31, 2017 is allowed for compensation paid to any covered employee to the extent that the total compensation for that covered employee exceeds $1,000,000 in any taxable year. Although the Act eliminated the prior tax deduction under Section 162(m) for performance-based executive compensation, it included a transition rule under which the changes to Section 162(m) will not apply to awards made to our covered employees who had the right to participate in our 2015 Omnibus Incentive Plan pursuant to written binding contracts in effect as of November 2, 2017, as long as those contracts have not subsequently been modified in any material respect. Accordingly, subject to further guidance from the Treasury Department and the Internal Revenue Service ("IRS"), the performance-based compensation paid to our executives under our Omnibus Plan remained eligible for the Section 162(m) exemption through 2019. Beginning in 2020, compensation exceeding the threshold for covered employees is non-deductible for income tax purposes.

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

Six Months Ended June 30, 2021 Compared to Six Months Ended June 30, 2020

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,			
	2021		2020	
	$	%	$	%
Net sales	58,538	100.0%	50,402	100.0%
Cost of goods sold	41,358	70.7%	35,903	71.2%
Depreciation expense	1,454	2.4%	1,574	3.1%
Total cost of goods sold	42,812	73.1%	37,477	74.4%
Gross profit	15,726	26.9%	12,925	25.6%
Selling expenses	5,788	9.9%	5,295	10.5%
General & administrative expenses	5,508	9.4%	5,876	11.6%
Amortization expense	–	0.0%	78	0.2%
Total operating expenses	**11,296**	**19.3%**	**11,249**	**22.3%**
Income from operations	**4,430**	**7.6%**	**1,676**	**3.3%**
Other income (expense):				
Interest expense	(42)	(0.1%)	(69)	-0.1%
Gain on investments	2	0.0%	4	0.0%
Loss on sales or property and equipment	(83)	(0.1%)	(28)	-0.1%
Other Income, net	(59)	(0.1%)	2	0.0%
Total other income (expense)	(182)	(0.3%)	(91)	-0.2%
Income before provision for income taxes	**4,248**	**7.3%**	**1,585**	**3.1%**
Provision for income taxes	1,324	2.3%	459	0.9%
Net income	**2,924**	**5.0%**	**1,126**	**2.2%**

Net Sales

Net sales finished at $58,538 for the six-month period ended June 30, 2021, an increase of $8,136 or 16.1% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir. Approximately 42% of the increase results from the Farmers to Families Food Box program with the United States Department of Agriculture ("USDA") which began during the middle of the first quarter of 2021 and ended during May 2021.

Gross Profit

Gross profit as a percentage of net sales increased to 26.9% during the six-month period ended June 30, 2021 from 25.6% during the same period in 2020. The increase versus the prior year was primarily due to the favorable impact of operating leverage that arises from higher net sales relative to fixed costs.

Selling Expenses

Selling expenses increased by $493 to $5,788 during the six-month period ended June 30, 2021 from $5,295 during the same period in 2020. The increase versus prior year primarily reflects an increase in advertising expense related to a television and digital advertising campaigns in the first quarter of 2021, partially offset by lower compensation expense.

General and Administrative Expenses

General and administrative expenses decreased $368 to $5,508 during the six-month period ended June 30, 2021 from $5,876 during the same period in 2020. The decrease is primarily a result of lower compensation expense, lower professional fees, and reduced office lease expense

Provision for Income Taxes

The provision for income taxes includes federal, state and local income taxes. The provision for income taxes was $1,324 and $459 during the six months ended June 30, 2021 and 2020, respectively.

Our effective income tax rate for the six months ended June 30, 2021 was 31.2% compared to 29.0% in the same period last year. During the first quarter of 2020, the company's effective tax rate was reduced due to the provisions of the Cares Act. The law provided for the carry back of certain net operating losses to years in which the tax rates were significantly higher. The tax benefit was recorded as a discrete item in the first quarter of 2020. The statutory Federal and state taxes rates remained consistent from 2020 to 2021. The Company has a number of items that are nondeductible or are discrete adjustments to tax expense. Although similar items were reflected in 2021, the percentage effect is lower due to the increase in pre-tax income in 2021 compared to 2020.

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

Section 162(m) of the Internal Revenue Code (the "Code") limits the deductibility of compensation paid to certain of our executives. Under the Tax Cuts and Jobs Act (the "Act") amendments to Section 162(m), no tax deduction in taxable years beginning after December 31, 2017 is allowed for compensation paid to any covered employee to the extent that the total compensation for that covered employee exceeds $1,000,000 in any taxable year. Although the Act eliminated the prior tax deduction under Section 162(m) for performance-based executive compensation, it included a transition rule under which the changes to Section 162(m) will not apply to awards made to our covered employees who had the right to participate in our 2015 Omnibus Incentive Plan pursuant to written binding contracts in effect as of November 2, 2017, as long as those contracts have not subsequently been modified in any material respect. Accordingly, subject to further guidance from the Treasury Department and the Internal Revenue Service ("IRS"), the performance-based compensation paid to our executives under our Omnibus Plan remained eligible for the Section 162(m) exemption in 2019. Beginning in 2020, compensation exceeding the threshold for covered employees is non-deductible for income tax purposes.

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

Liquidity and Capital Resources

The ultimate impact that the COVID-19 pandemic or any future pandemic or disease outbreak will have on our business and our consolidated results of operations is uncertain.

To date we have seen increased customer and consumer demand for our products as consumers initially began pantry loading and have increased their at-home consumption as a result of social distancing and stay-at-home and work-from-home mandates and recommendations. However, this increased customer and consumer demand may decrease in the coming months if and when the need for social distancing and stay-at-home and work-from-home mandates and recommendations decrease, and we are unable to predict the nature and timing of when that impact may occur, if at all.

Although to date we have not experienced supply chain constraints, and we have continued to be able to fully satisfy customer and consumer demand for our products, the continued unprecedented demand for food and other consumer packaged goods products as a result of the COVID-19 pandemic or any future pandemic may limit the availability of, or increase the cost of, ingredients, packaging and other raw materials necessary to produce our products, and our operations may be negatively impacted. Additionally, pandemics or disease outbreaks could result in a widespread health crisis that could adversely affect economies and financial markets, consumer spending and confidence levels resulting in an economic downturn that could affect customer and consumer demand for our products.

Our efforts to manage and mitigate these factors may be unsuccessful, and the effectiveness of these efforts depends on factors beyond our control, including the duration and severity of any pandemic or disease outbreak, as well as third party actions taken to contain its spread and mitigate public health effects.

The ultimate impact of the COVID-19 pandemic on our business will depend on many factors, including, among others, the duration of social distancing and stay-at-home and work-from-home mandates and recommendations and whether additional waves of COVID-19 or different variants of COVID-19 will affect the United States and other markets, our ability and the ability of our suppliers to continue to operate our and their manufacturing facilities and maintain the supply chain without material disruption and procure ingredients, packaging and other raw materials when needed despite unprecedented demand in the food industry, and the extent to which macroeconomic conditions resulting from the pandemic and the pace of the subsequent recovery may impact consumer eating and shopping habits. We cannot predict the duration or scope of the disruption. Therefore, the financial impact cannot be reasonably estimated at this time.

To date, our manufacturing facilities have not been significantly impacted. We have full production capacity available at all locations at this time. On March 16, 2020, the food industry, including grocery stores and their suppliers, and transportation were classified by the U.S. federal government as critical infrastructure industry. As a result, our employees and facilities, as well as the retailers and distributors that sell our products, will be able to remain in operation. During the first quarter of 2020, Management, anticipating the spread of Covid-19 and its effects, implemented a plan to mitigate effects of Covid-19 on supply and transportation of materials used to make and package our products, staffing, and transportation of our products to customers. While the situation is fluid, we have evaluated all manufacturing locations and do not anticipate any staffing shortages or interruption of our production, transportation and sale of products in the near term.

Cash Flow

At this time, the COVID-19 pandemic has not materially impacted our operations. We expect to meet our foreseeable liquidity and capital resource requirements through anticipated cash flows from operations; our revolving credit facility; and cash and cash equivalents to ensure the continuation of the Company as a going concern. 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. Given the dynamic nature of COVID-19, we will continue to assess our liquidity needs while continuing to manage our discretionary spending and investment strategies.

Sources and Uses of Cash

Lifeway had a net increase in cash and cash equivalents of $2,486 and $783 during the six-month period ended June 30, 2021 and 2020, respectively. The drivers of the year over year change are as follows:

Net cash provided in operating activities was $3,647 during the six-month period ended June 30, 2021 compared to net cash provided by operating activities of $1,911 in the same period in 2020. The increase in cash provided by operating activities is primarily due to the increase in cash generated through higher revenues and reduced expenses in 2021, and the change in working capital. Working capital consumption was higher in 2020 due to increased revenue in March 2020 as consumers anticipated the shelter in place directives that ultimately occurred as a result of the COVID-19 pandemic.

Net cash used in investing activities was $1,161 during the six-month period ended June 30, 2021 compared to net cash used in investing activities of $723 in the same period in 2020. The increase in net cash used in investing activities in 2021 reflects higher capital spending. Capital spending was $1,161 during the six-month period ended June 30, 2021 compared to $728 in 2020. Our capital spending is focused in three core areas: growth, cost reduction, and facility improvements. Growth capital spending supports new product innovation and enhancements. Cost reduction and facility improvements support manufacturing efficiency, safety and productivity.

Net cash used in financing activities was $0 during the six-month period ended June 30, 2021 compared to net cash used in financing activities of $405 in the same period in 2020.

On November 1, 2017, Lifeway's Board approved an increase in the aggregate amount under our previously announced 2015 stock repurchase program (the "2017 Repurchase Plan Amendment"), by adding to (i.e., exclusive of the shares previously authorized under the 2015 stock repurchase program) the authorization the lesser of $5,185 or 625 shares. We repurchased approximately 178 shares of common stock at a cost of $405 during the three-month period ended March 31, 2020 under the 2017 Repurchase Plan Amendment. As of June 30, 2021, there were no shares of common stock that remained available to be purchased under the 2017 Repurchase Plan Amendment. We intend to hold repurchased shares in treasury for general corporate purposes, including issuances under our 2015 Omnibus Incentive Plan. Treasury shares are accounted for using the cost method.

Debt Obligations

On September 30, 2020, Lifeway entered into the Third Modification to the Amended and Restated Loan and Security Agreement, as amended, (the "Third Modification") with its existing lender. The Third Modification amends the Amended and Restated Loan and Security Agreement, as amended, by removing the monthly borrowing base reporting requirement effective September 30, 2020, including a covenant to maintain a quarterly minimum working capital financial covenant, as defined, of no less than $11.25 million each of the fiscal quarters commencing the fiscal quarter ended December 31, 2020 through the expiration date, and eliminating the tier interest pricing structure. The Amended and Restated Loan and Security Agreement continues to provide Lifeway with a revolving line of credit up to a maximum of $5 million (the "Revolving Loan") and provides the Borrowers with an incremental facility not to exceed $5 million (the "Incremental Facility" and together with the Revolving Loan, the "Loans"). The Termination Date of the Revolving Loan was extended to June 30, 2025, unless earlier terminated.

Except as described above, amended, the Modified Revolving Credit Facility remains substantively unchanged and in full force and effect, including customary representations, warranties, and covenants on the part of Lifeway, including financial covenants requiring us to maintain a fixed charge coverage ratio of no less than 1.25 to 1.00 each of the fiscal quarters ending through the expiration date. The Modified Revolving Credit Facility continues to provide for events of default, including failure to repay principal and interest when due and failure to perform or violation of the provisions or covenants of the agreement, as a result of which amounts due under the Modified Revolving Credit Facility may be accelerated.

As of June 30, 2021, we had $2,777, outstanding under the Revolving Credit Facility. We had $2,223 available for future borrowings as of June 30, 2021.

As amended, all outstanding amounts under the Loans bear interest, at Lifeway's election, at either the lender Base Rate (the Prime Rate minus 1.00%) or the LIBOR plus 1.95%, payable monthly in arrears. Lifeway is also required to pay a quarterly unused line fee of 0.20% and, in conjunction with the issuance of any letters of credit, a letter of credit fee of 0.20%. Lifeway's interest rate on debt outstanding under our Revolving Credit Facility as of June 30, 2021 was 2.15%.

We are in compliance with all applicable financial debt covenants as of June 30, 2021. See Note 7 to our Consolidated Financial Statements for additional information regarding our indebtedness and related agreements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We have 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")) 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 Securities and Exchange Commission's rules and forms, and such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2021. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2021.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

There have been no material changes with respect to the risk factors disclosed in Part I, Item 1A of our 2020 Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURE.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

No.	Description	Form	Period Ending	Exhibit	Filing Date
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 16, 2021 reporting Lifeway's financial results for the six months ended June 30, 2021.*	Furnished Herewith			

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

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

SIGNATURES

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

LIFEWAY FOODS, INC.

Date: August 16, 2021

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

Date: August 16, 2021

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

EXHIBIT 31.1

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

I, Julie Smolyansky, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 16, 2021

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

EXHIBIT 31.2

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

I, Eric Hanson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 16, 2021

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, 2021 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: August 16, 2021

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, 2021 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: August 16, 2021

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

Exhibit 99.1

Lifeway Foods, Inc. Announces 16.6% Sales Increase for Second Quarter Ended June 30, 2021

Company delivers seventh consecutive quarter of year-over-year net sales increases

Morton Grove, IL — August 16, 2021— Lifeway Foods, Inc. (Nasdaq: LWAY) (“Lifeway” or “the Company”), the leading U.S. supplier of kefir and fermented probiotic products to support the microbiome, today reported financial results for the second quarter ended June 30, 2021.

“I am proud to report that the second quarter of 2021 marked yet another consecutive quarter of year-over-year growth, highlighted by our strong 16.6% increase in net sales when compared to the second quarter of 2020,” commented Julie Smolyansky, Lifeway’s President and Chief Executive Officer. “Throughout the quarter, we remained focused on advertising and customer acquisition strategies with elevated digital engagement and marketing programs, including our first Spanish-language campaign. This increased marketing, combined with the improving execution of our previously outlined Lifeway 2.0 strategy, have contributed to our accelerating growth. I am excited for the remainder of 2021, as current consumer trends towards healthy eating alongside the continued efficient execution of our growth strategy should provide a strong platform for Lifeway moving forwards.”

Smolyansky added, “I would also like to highlight two pivotal events that indicate Lifeway’s commitment to growth. On July 1, 2021, we announced the brand’s first expansion of kefir distribution into the French market with our first listing in France. We are very excited to capitalize on this expansion, and the French market is a perfect target, as fermented dairy foods like kefir have been prevalent in the country’s diet for generations. In addition, on August 3, 2021, we announced the intended acquisition of the assets of GlenOaks Farms. GlenOaks’ product offering includes six different flavors of their popular, probiotic drinkable yogurt, a tremendous strategic complement to our kefir products. The acquisition further solidifies our position in California and the West, and we look forward to integrating the GlenOaks brand and expanding its reach.”

A pre-recorded conference call and webcast with Lifeway CEO Julie Smolyansky discussing these results with additional comments and details will be available on August 16, 2021 at approximately 9:00 a.m. ET. The webcast will be available over the Internet through the “Investor Relations” section of the Company’s website at https://lifewaykefir.com/webinars-reports/.

Second Quarter 2021 Results

Net sales were $29.2 million for the second quarter, an increase of $4.1 million or 16.6% from the same period in 2020. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir.

Gross profit as a percentage of net sales was 26.3% for the second quarter, compared to 27.7% during the same period in 2020. The decrease versus the prior year was primarily due to the unfavorable impact of milk pricing, and to a lesser extent the increased pricing of other inputs, partially offset by decreasing in depreciation expense.

Selling expenses decreased $0.1 million, or 5.7%, to $2.6 million for the second quarter from $2.7 million in the second quarter of 2020. The decrease was primarily due to favorable compensation expense.

General and administrative expenses decreased $0.1 million, or 4.2% to $2.6 million for the second quarter of 2021 from $2.7 million during the same period in 2020. The decrease is primarily a result of lower compensation expense due to organizational changes made in 2020 and lower professional fees.

Income tax expense was $0.7 million for the second quarter of 2021, compared to $0.4 million during the same period in 2020.

The Company reported net income of $1.6 million or $0.10 per basic and diluted common share for the second quarter ended June 30, 2021 compared to a net income of $1.0 million or $0.06 per basic and diluted common share in the prior year period.

About Lifeway Foods, Inc.

Lifeway Foods, Inc., which has been recognized as one of Forbes' Best Small Companies, is America's leading supplier of the probiotic, fermented beverage known as kefir. In addition to its line of drinkable kefir, the company also produces cheese and a ProBugs line for kids. Lifeway's tart and tangy fermented dairy products are now sold across the United States, Mexico, Ireland, France and the United Kingdom. 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, 2020, and the Company’s subsequent filings with the SEC. Copies of these filings are available online at https://www.sec.gov, http://lifewaykefir.com/investor-relations/, or on request from Lifeway. Information in this release is as of the dates and time periods indicated herein, and Lifeway does not undertake to update any of the information contained in these materials, except as required by law. Accordingly, YOU SHOULD NOT RELY ON THE ACCURACY OF ANY OF THE STATEMENTS OR OTHER INFORMATION CONTAINED IN ANY ARCHIVED PRESS RELEASE.
Contact:

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

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2021 and December 31, 2020
(In thousands)

	June 30, 2021 (Unaudited)	December 31, 2020
Current assets		
Cash and cash equivalents	$ 10,412	$ 7,926
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of $1,190 and $1,350 at June 30, 2021 and December 31, 2020 respectively	9,157	8,002
Inventories, net	7,291	6,930
Prepaid expenses and other current assets	908	1,163
Refundable income taxes	354	31
Total current assets	**28,122**	**24,052**
Property, plant and equipment, net	**20,671**	**21,048**
Operating lease right-of-use asset	**226**	**345**
Intangible assets		
Goodwill and indefinite-lived intangibles	12,824	12,824
Other intangible assets, net	–	–
Total intangible assets	**12,824**	**12,824**
Other assets	1,800	1,800
Total assets	**$ 63,643**	**$ 60,069**
Current liabilities		
Accounts payable	$ 5,285	$ 5,592
Accrued expenses	3,587	2,196
Accrued income taxes	106	653
Total current liabilities	**8,978**	**8,441**
Line of credit	**2,777**	**2,768**
Operating lease liabilities	**107**	**165**
Deferred income taxes, net	**1,764**	**1,764**
Other long-term liabilities	**12**	**77**
Total liabilities	**13,638**	**13,215**
Commitments and contingencies		
Stockholders' equity		
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at June 30, 2021 and December 31, 2020	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 15,650 and 15,604 outstanding at June 30, 2021 and December 31, 2020, respectively	6,509	6,509
Paid-in capital	2,488	2,600
Treasury stock, at cost	(12,111)	(12,450)
Retained earnings	53,119	50,195
Total stockholders' equity	**50,005**	**46,854**
Total liabilities and stockholders' equity	**$ 63,643**	**$ 60,069**

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the three months ended June 30, 2021 and 2020
(Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Net sales	**$ 29,162**	**$ 25,014**	**$ 58,538**	**$ 50,402**
Cost of goods sold	20,846	17,279	41,358	35,903
Depreciation expense	639	807	1,454	1,574
Total cost of goods sold	21,485	18,086	42,812	37,477
Gross profit	**7,677**	**6,928**	**15,726**	**12,925**
Selling expenses	2,566	2,720	5,788	5,295
General and administrative	2,617	2,731	5,508	5,876
Amortization expense	–	39	–	78
Total operating expenses	**5,183**	**5,490**	**11,296**	**11,249**
Income from operations	**2,494**	**1,438**	**4,430**	**1,676**
Other income (expense):				
Interest expense	(20)	(30)	(42)	(69)
Gain on investments	–	4	2	4
Loss on sale of property and equipment	(76)	(33)	(83)	(28)
Other (expense) income, net	(49)	5	(59)	2
Total other income (expense)	(145)	(54)	(182)	(91)
Income before provision for income taxes	**2,349**	**1,384**	**4,248**	**1,585**
Provision for income taxes	731	404	1,324	459
Net income	**$ 1,618**	**$ 980**	**$ 2,924**	**$ 1,126**
Earnings (loss) per common share:				
Basic	$ 0.10	$ 0.06	$ 0.19	$ 0.07
Diluted	$ 0.10	$ 0.06	$ 0.19	$ 0.07
Weighted average common shares:				
Basic	15, 639	15,560	15, 622	15,591
Diluted	15, 793	15,586	15, 772	15,607

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

	Six Months Ended June 30,	
	2021	**2020**
Cash flows from operating activities:		
Net income	**$ 2,924**	**$ 1,126**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	1,454	1,652
Non-cash interest expense	9	12
Non-cash rent expense	51	(38)
Bad debt expense	(1)	(4)
Deferred revenue	(15)	(48)
Stock-based compensation	301	232
Deferred income taxes	–	369
Loss (gain) on sale of property and equipment	83	28
(Increase) decrease in operating assets:		
Accounts receivable	(1,154)	(1,041)
Inventories	(361)	(262)
Refundable income taxes	(323)	65
Prepaid expenses and other current assets	255	502
Increase (decrease) in operating liabilities:		
Accounts payable	(305)	(172)
Accrued expenses	1,276	(448)
Accrued income taxes	(547)	(62)
Net cash provided by operating activities	**3,647**	**1,911**
Cash flows from investing activities:		
Purchases of property and equipment	(1,161)	(728)
Proceeds from sale of property and equipment	–	5
Net cash used in investing activities	**(1,161)**	**(723)**
Cash flows from financing activities:		
Purchase of treasury stock	–	(405)
Net cash used in financing activities	**–**	**(405)**
Net increase in cash and cash equivalents	**2,486**	**783**
Cash and cash equivalents at the beginning of the period	7,926	3,836
Cash and cash equivalents at the end of the period	**$ 10,412**	**$ 4,619**
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	$ 2,194	$ 82
Cash paid for interest	$ 33	$ 61
Non-cash investing activities		
Increase (decrease) in right-of-use assets and operating lease obligations	$ 27	$ (58)
Non-cash financing activities		
Issuance of common stock under equity incentive plans	$ –	$ 522