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DELTA REPORT

10-Q

LWAY - LIFEWAY FOODS, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	685
CHANGES	164
DELETIONS	291
ADDITIONS	230

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2023 March 31, 2024

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

For the transition period from __________ to __________

Commission File Number: 000-17363

LIFEWAY FOODS, INC.
(Exact name of registrant 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) 847) 967-1010
(Registrant's telephone number, including area code)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

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

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

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

Number of shares of Common Stock, no par value, outstanding as of Nov 10, 2023: May 6, 2024: 14,690,987 14,707,392.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023
(In thousands)

	September 30, 2023 (Unaudited)	December 31, 2022	March 31, 2024 (Unaudited)	December 31, 2023
Current assets				
Cash and cash equivalents	$ 12,632	$ 4,444	$ 12,025	$ 13,198
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of $1,430 and $1,820 at September 30, 2023 and December 31, 2022 respectively	13,095	11,414		
Accounts receivable, net of allowance for credit losses and discounts & allowances of $1,640 and $1,270 at March 31, 2024 and December 31, 2023 respectively			15,064	13,875
Inventories, net	9,321	9,631	8,130	9,104
Prepaid expenses and other current assets	1,621	1,445	1,988	2,019
Refundable income taxes	260	44	378	–
Total current assets	**36,929**	**26,978**	**37,585**	**38,196**
Property, plant and equipment, net	22,285	20,905	24,627	22,764
Operating lease right-of-use asset	203	174	172	192
Goodwill	11,704	11,704	11,704	11,704
Intangible assets, net	7,033	7,438	6,763	6,898
Other assets	1,900	1,800	1,900	1,900
Total assets	**$ 80,054**	**$ 68,999**	**$ 82,751**	**$ 81,654**
Current liabilities				
Current portion of note payable	$ 1,250	$ 1,250	$ 1,250	$ 1,250
Accounts payable	9,102	7,979	10,024	9,976
Accrued expenses	5,555	3,813	3,604	4,916
Accrued income taxes	500	–	–	474
Total current liabilities	**16,407**	**13,042**	**14,878**	**16,616**
Line of credit	**2,777**	**2,777**		
Note payable	**1,731**	**2,477**	**1,235**	**1,483**
Operating lease liabilities	**130**	**104**	**102**	**118**
Deferred income taxes, net	**3,029**	**3,029**	**3,001**	**3,001**
Total liabilities	**24,074**	**21,429**	**19,216**	**21,218**
Commitments and contingencies (Note 9)				
Stockholders' equity				
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at September 30, 2023 and December 31, 2022	–	–		
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 14,691 and 14,645 outstanding at September 30, 2023 and December 31, 2022, respectively	6,509	6,509		
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at March 31, 2024 and December 31, 2023			–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 14,691 outstanding at March 31, 2024 and December 31, 2023			6,509	6,509
Paid-in capital	4,338	3,624	5,498	4,825
Treasury stock, at cost	(16,695)	(16,993)	(16,695)	(16,695)

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Retained earnings	61,828	54,430	68,223	65,797
Total stockholders' equity	**55,980**	**47,570**	**63,535**	**60,436**
Total liabilities and stockholders' equity	**$ 80,054**	**$ 68,999**	**$ 82,751**	**$ 81,654**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the three ended March 31, 2024 and nine months ended September 30, 2023 and 2022 2023
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine months Ended September 30, 2023	Nine months Ended September 30, 2022
Net sales	**$ 40,896**	**$ 38,140**	**$ 118,030**	**$ 105,730**
Cost of goods sold	29,099	29,962	85,428	85,032
Depreciation expense	654	590	1,953	1,833
Total cost of goods sold	29,753	30,552	87,381	86,865
Gross profit	**11,143**	**7,588**	**30,649**	**18,865**
Selling expenses	2,884	2,843	8,974	8,527
General and administrative	3,085	3,415	10,028	9,546
Amortization expense	135	135	405	405
Total operating expenses	**6,104**	**6,393**	**19,407**	**18,478**
Income from operations	**5,039**	**1,195**	**11,242**	**387**
Other income (expense):				
Interest expense	(109)	(77)	(322)	(171)
Gain on sale of property and equipment	–	–	33	–
Other (expense) income, net	(1)	(5)	(1)	(10)
Total other income (expense)	(110)	(82)	(290)	(181)
Income before provision for income taxes	**4,929**	**1,113**	**10,952**	**206**
Provision (benefit) for income taxes	1,517	130	3,554	(2)
Net income	**$ 3,412**	**$ 983**	**$ 7,398**	**$ 208**
Earnings per common share:				
Basic	$ 0.23	$ 0.06	$ 0.50	$ 0.01
Diluted	$ 0.23	$ 0.06	$ 0.49	$ 0.01
Weighted average common shares:				
Basic	14,677	15,490	14,659	15,462
Diluted	15,101	15,848	15,063	15,759

	2024	**2023**
Net Sales	**$ 44,634**	**$ 37,904**
Cost of goods sold	32,438	29,030
Depreciation expense	661	648
Total cost of goods sold	33,099	29,678
Gross profit	**11,535**	**8,226**
Selling expense	3,700	3,519
General and administrative expense	4,136	3,135
Amortization expense	135	135
Total operating expenses	**7,971**	**6,789**
Income from operations	3,564	1,437
Other income (expense):		
Interest expense	(51)	(104)
Other income (expense), net	(5)	5
Total other income (expense)	(56)	(99)
Income before provision for income taxes	**3,508**	**1,338**

Provision for income taxes	1,082	508
Net income	**$ 2,426**	**$ 830**
Net earnings per common share:		
Basic	$ 0.17	$ 0.06
Diluted	$ 0.16	$ 0.06
Weighted average common shares outstanding:		
Basic	14,691	14,645
Diluted	15,222	15,030

See accompanying notes to consolidated financial statements

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

	Common Stock												
	Issued			In treasury			Paid-In		Retained		Total	
	Shares		$	Shares		$		Capital		Earnings		Equity
Balance, January 1, 2023	**17,274**	**$**	**6,509**	**(2,629)**	**$**	**(16,993)**	**$**	**3,624**	**$**	**54,430**	**$**	**47,570**
Stock-based compensation	–		–	–		–		343		–		343
Net income	–		–	–		–		–		830		830
Balance, March 31, 2023	**17,274**	**$**	**6,509**	**(2,629)**	**$**	**(16,993)**	**$**	**3,967**	**$**	**55,260**	**$**	**48,743**

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

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

	Common Stock												
	Issued			In treasury			Paid-In		Retained		Total	
	Shares		$	Shares		$		Capital		Earnings		Equity
Balance, January 1, 2024	**17,274**	**$**	**6,509**	**(2,583)**	**$**	**(16,695)**	**$**	**4,825**	**$**	**65,797**	**$**	**60,436**
Stock-based compensation	–		–	–		–		673		–		673
Net income	–		–	–		–		–		2,426		2,426
Balance, March 31, 2024	**17,274**	**$**	**6,509**	**(2,629)**	**$**	**(16,695)**	**$**	**5,498**	**$**	**68,223**	**$**	**63,535**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity Cash Flows

(Unaudited)

(In thousands)

	Common Stock						
	Issued		In treasury		Paid-In	Retained	Total
	Shares	$	Shares	$	Capital	Earnings	Equity
Balance, January 1, 2023	**17,274**	**$ 6,509**	**(2,629)**	**$ (16,993)**	**$ 3,624**	**$ 54,430**	**$ 47,570**
Stock-based compensation	–	–	–	–	343	–	343
Net income	–	–	–	–	–	830	830
Balance, March 31, 2023	**17,274**	**$ 6,509**	**(2,629)**	**$ (16,993)**	**$ 3,967**	**$ 55,260**	**$ 48,743**
Issuance of common stock in connection with stock-based compensation	–	–	11	73	(112)	–	(39)
Stock-based compensation	–	–	–	–	312	–	312
Net income	–	–	–	–	–	3,156	3,156
Balance, June 30, 2023	**17,274**	**$ 6,509**	**(2,618)**	**$ (16,920)**	**$ 4,167**	**$ 58,416**	**$ 52,172**
Issuance of common stock in connection with stock-based compensation	–	–	35	225	(252)	–	(27)
Stock-based compensation	–	–	–	–	423	–	423
Net income	–	–	–	–	–	3,412	3,412
Balance, September 30, 2023	**17,274**	**$ 6,509**	**(2,583)**	**$ (16,695)**	**$ 4,338**	**$ 61,828**	**$ 55,980**

	Three months ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net income	**$ 2,426**	**$ 830**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	796	783
Stock-based compensation	673	343
Non-cash interest expense	2	2
(Increase) decrease in operating assets:		
Accounts receivable	(1,189)	(572)
Inventories	974	339
Refundable income taxes	(378)	44
Prepaid expenses and other current assets	31	377
Increase (decrease) in operating liabilities:		
Accounts payable	(6)	1,046
Accrued expenses	(1,309)	(581)
Accrued income taxes	(474)	416
Net cash provided by operating activities	**1,546**	**3,027**
Cash flows from investing activities:		
Purchases of property and equipment	(2,469)	(1,762)
Net cash used in investing activities	**(2,469)**	**(1,762)**
Cash flows from financing activities:		
Repayment of note payable	(250)	(500)
Net cash used in financing activities	**(250)**	**(500)**
Net (decrease) increase in cash and cash equivalents	**(1,173)**	**765**
Cash and cash equivalents at the beginning of the period	13,198	4,444
Cash and cash equivalents at the end of the period	**$ 12,025**	**$ 5,209**
Supplemental cash flow information:		

Cash paid for income taxes, net of (refunds)	$	1,934	$	47
Cash paid for interest	$	50	$	130
Non-cash investing activities				
Accrued purchase of property and equipment	$	192	$	122
Right-of-use assets obtained in exchange for lease obligations	$	–	$	19

See accompanying notes to consolidated financial statements

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

	Nine months ended September 30,	
	2023	**2022**
Cash flows from operating activities:		
Net income	**$ 7,398**	**$ 208**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	2,358	2,238
Stock-based compensation	1,078	755
Non-cash interest expense	5	5
Bad debt expense	2	–
Deferred revenue	–	(23)
Gain on sale of equipment	(33)	–
(Increase) decrease in operating assets:		
Accounts receivable	(1,683)	(1,576)
Inventories	310	(907)
Refundable income taxes	(216)	(309)
Prepaid expenses and other current assets	(176)	(115)
Increase (decrease) in operating liabilities:		
Accounts payable	928	3,085
Accrued expenses	1,673	1,003
Accrued income taxes	500	(725)
Net cash provided by operating activities	**12,144**	**3,639**
Cash flows from investing activities:		
Purchases of property and equipment	(3,146)	(2,609)
Proceeds from sales of equipment	40	–
Acquisition, net of cash acquired	–	(580)
Purchase of investments	(100)	–
Net cash used in investing activities	**(3,206)**	**(3,189)**
Cash flows from financing activities:		
Repayment of note payable	(750)	(750)
Net cash used in financing activities	**(750)**	**(750)**
Net increase (decrease) in cash and cash equivalents	**8,188**	**(300)**
Cash and cash equivalents at the beginning of the period	4,444	9,233
Cash and cash equivalents at the end of the period	**$ 12,632**	**$ 8,933**
Supplemental cash flow information:		
Cash paid for income taxes, net	$ 3,270	$ 640
Cash paid for interest	$ 343	$ 158
Non-cash investing activities		
Accrued purchase of property and equipment	$ 194	$ 250
Increase in right-of-use assets and operating lease obligations	$ 86	$ 19

See accompanying notes to consolidated financial statements

Note 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") for interim financial information, and do not include certain information and footnote disclosures required for complete, audited financial statements. In the opinion of management, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. The consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022 December 31, 2023. Results of operations for any interim period are not necessarily indicative of future or annual results.

Principles of consolidation

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

Note 2 – Summary of Significant Accounting Policies

Our significant accounting policies, which are summarized in detail in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 December 31, 2023, have not materially changed. The following is a description of certain of our significant accounting policies.

Use of estimates

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

Cash and cash equivalents

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

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

Customer concentration

Sales are predominately to companies in the retail food industry located within the United States. Two major customers accounted for approximately 23% and 22% of net sales for the nine months ended September 30, 2023 and 2022, respectively. Two major customers accounted for approximately 24% and 23% of net sales for the three months ended September 30, 2023 and 2022, respectively.

Advertising and promotional costs

Lifeway expenses advertising Advertising costs are expensed as incurred and is reported in Selling expense in the Company's consolidated statement of operations. Total advertising expense was $2,884 1,372 and $2,585 for the nine months ended September 30, 2023 and 2022, respectively. Total advertising expense was $878 and $848 1,463 for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

Segments

The Company is managed as a single reportable segment. The Chief Executive Officer, who is the Company’s Chief Operating Decision Maker (“CODM”), reviews financial information on an aggregate basis for purposes of allocating resources and assessing financial performance, as well as for making strategic operational decisions and managing the organization. Substantially all of Lifeway’s consolidated revenues relate to the sale of cultured dairy products that it produces using the same processes and materials and are sold to consumers through a common network of distributors and retailers in the United States.

Recent accounting pronouncements

Adopted *Issued but not yet effective*

In October 2021, November 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2021-08, Business Combinations 2023-07: Segment Reporting (Topic 805) 280): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. Improvements to Reportable Segment Disclosures. The new guidance provides a single comprehensive accounting model on revenue recognition for contracts with customers and requires that the acquirer entities to report incremental information about significant segment expenses included in a business combination recognize segment’s profit or loss measure as well as the name and measure contract title of the chief operating decision maker. The guidance also requires interim disclosures related to reportable segment profit or loss and assets that had previously only been disclosed annually. The new standard is effective for our annual period ending December 31, 2024 and liabilities acquired in a business combination in accordance with Topic 606 (Revenue from Contracts with Customers) our interim periods during the fiscal year ending December 31, 2025. The amendments guidance does not affect recognition or measurement in this ASU are effective for fiscal years beginning after December 15, 2022. The Company adopted this standard during the first quarter of 2023. The adoption did not have a material impact on the Company’s consolidated financial statements.

In March 2020, December 2023, the FASB issued ASU No. 2020-04, Reference Rate Reform 2023-09: Income Taxes (Topic 848) 740): Facilitation of Improvements to Income Tax Disclosures that requires entities to disclose additional information about federal, state, and foreign income taxes primarily related to the Effects of Reference Rate Reform on Financial Reporting. income tax rate reconciliation and income taxes paid. The new guidance provides optional expedients standard also eliminates certain existing disclosure requirements related to uncertain tax positions and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The guidance will be effective prospectively as of March 12, 2020 through December 31, 2022 and interim periods within those fiscal years. The ASU was effective upon issuance and allowed companies to adopt the amendments on a prospective basis through December 31, 2024.
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. unrecognized deferred tax liabilities. The guidance is effective for annual periods beginning after December 15, 2022, including interim periods within those our fiscal years, with early adoption permitted. year ending December 31, 2024. The Company adopted this standard during guidance does not affect recognition or measurement in the first quarter of 2023. The adoption did not have a material impact on the Company’s consolidated financial statements.

Note 3 – Inventories, net

Inventories consisted of the following:

	September 30, 2023	December 31, 2022
Ingredients	$ 2,711	$ 2,859
Packaging	3,048	3,233
Finished goods	3,562	3,539
Total inventories, net	$ 9,321	$ 9,631

	March 31, 2024	December 31, 2023
Ingredients	$ 2,411	$ 2,929
Packaging	2,640	3,014
Finished goods	3,079	3,161
Total inventories, net	$ 8,130	$ 9,104

Note 4 – Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Land	**$ 1,565**	**$ 1,565**	**$ 1,565**	**$ 1,565**
Buildings and improvements	**19,463**	**19,341**	**21,855**	**21,661**
Machinery and equipment	**33,574**	**32,786**	**33,890**	**33,573**
Vehicles	**705**	**640**	**705**	**705**
Office equipment	**1,059**	**979**	**1,072**	**1,072**
Construction in process	**3,393**	**1,180**	**4,107**	**2,154**
	59,759	**56,491**	**63,194**	**60,730**
Less accumulated depreciation	**(37,474)**	**(35,586)**	**(38,567)**	**(37,966)**
Total property, plant and equipment, net	**$ 22,285**	**$ 20,905**	**$ 24,627**	**$ 22,764**

Note 5 – Goodwill and Intangible Assets

Goodwill

Goodwill consisted of the following:

	Total
Balance at December 31, 2022, before accumulated impairment loses	$ 12,948
Accumulated impairment losses	(1,244)
Balance at December 31, 2022	$ 11,704
Balance at September 30, 2023	$ 11,704

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

Balance at March 31, 2024	
Goodwill	$ 12,948
Accumulated impairment losses	(1,244)
	$ 11,704

Intangible Assets

Other intangible assets, net consisted of the following:

	September 30, 2023			December 31, 2022			March 31, 2024			December 31	
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumula Amortizat
Recipes	$ 44	$ (44)	$ –	$ 44	$ (44)	$ –	$ 44	$ (44)	$ –	$ 44	$
Customer lists and other customer related intangibles	4,529	(4,529)	–	4,529	(4,529)	–	4,529	(4,529)	–	4,529	(4,
Customer relationship	3,385	(1,332)	2,053	3,385	(1,212)	2,173					
Customer relationships							3,385	(1,412)	1,973	3,385	(1,
Brand names	7,948	(2,968)	4,980	7,948	(2,683)	5,265	7,948	(3,158)	4,790	7,948	(3,
Formula	438	(438)	–	438	(438)	–	438	(438)	–	438	(
Total intangible assets, net	$ 16,344	$ (9,311)	$ 7,033	$ 16,344	$ (8,906)	$ 7,438	$ 16,344	$ (9,581)	$ 6,763	$ 16,344	$ (9,

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

Year	Amortization	Amortization
Three months ended December 31, 2023	$ 135	
Nine months ended December 31, 2024		$ 405
2024	$ 540	$ 540
2025	$ 540	$ 540
2026	$ 540	$ 540
2027	$ 540	$ 540

The weighted-average remaining amortization expense period for the customer relationship and brand name intangible assets is 12.3 and 12.6 years, respectively, as of March 31, 2024. The weighted-average remaining amortization expense period for total intangible assets is 12.5 years as of March 31, 2024.

Note 6 – Accrued Expenses

Accrued expenses consisted of the following:

	March 31, 2024	December 31, 2023
Payroll and incentive compensation	$ 2,621	$ 3,853
Real estate taxes	343	442
Utilities	193	241
Current portion of operating lease liabilities	71	74
Other	376	306
Total accrued expenses	$ 3,604	$ 4,916

Note 6 – Accrued Expenses

Accrued expenses consisted of the following:

	September 30, 2023	December 31, 2022
Payroll and incentive compensation	$ 4,381	$ 2,925
Real estate taxes	556	394
Utilities	174	121
Current portion of operating lease liabilities	73	70
Other	371	303
Total accrued expenses	$ 5,555	$ 3,813

Note 7 – Debt

Note payable consisted of the following:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Term loan due August 18, 2026. Interest (7.40% at September 30, 2023) payable monthly.	$ 3,000	$ 3,750		
Term loan due August 18, 2026. Interest (7.39% at March 31, 2024) payable monthly.			$ 2,500	$ 2,750
Unamortized deferred financing costs	(19)	(23)	(15)	(17)
Total note payable	2,981	3,727	2,485	2,733
Less current portion	(1,250)	(1,250)	(1,250)	(1,250)
Total long-term portion	$ 1,731	$ 2,477	$ 1,235	$ 1,483

The scheduled maturities of the term loan, excluding deferred financing costs, at September 30, 2023 March 31, 2024 are as follows:

Three months ended December 31, 2023	$ 500	
2024	1,000	
Nine months ended December 31, 2024		$ 1,000
2025	1,000	1,000
2026	500	500
Total term loan	$ 3,000	$ 2,500

Credit Agreement

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

All outstanding amounts under the Credit Agreement bear interest at the Secured Overnight Financing Rate ("SOFR"), plus 2.07%. Interest is payable monthly in arrears. As Lifeway is also required to pay a quarterly unused revolving line of September 30, 2023, credit fee of 0.20% and, in conjunction with the Company had $2,777 outstanding under the Revolving Credit Facility. The Company had $2,223 available for future borrowings under the Revolving Credit Facility as issuance of September 30, 2023. Lifeway's interest rate on debt outstanding under the Revolving Credit Facility as any letters of September 30, 2023 was credit, a letter of credit fee of 7.34 0.20%.

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

Lifeway was in compliance with the fixed charge coverage ratio and minimum working capital covenants at September 30, 2023 March 31, 2024.

Revolving Credit Facility

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

Note 8 – Leases

The Company leases certain machinery and equipment with fixed base rent payments and variable costs based on usage. Remaining lease terms for these leases range from less than one year to six years. The Company includes lease extension options, if applicable and reasonably certain to be exercised, in the calculation of the right-of-use asset and lease liabilities. Lifeway includes only fixed payments for lease components in the measurement of the right-of-use asset and lease liability. Variable lease payments are those that vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time. There are no residual value guarantees. Lifeway does not currently have leases which meet the finance lease classification as defined under ASC 842.

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

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

The Company does not record leases with an initial term of 12 months or less on the balance sheet. Expense for these short-term leases is recorded on a straight-line basis over the lease term. Total lease expense was $102 35 and $191 (including short term leases) for the nine months ended September 30, 2023 and 2022, respectively. Total lease expense was $41 and $44 31 (including short term leases) for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

Future maturities of lease liabilities were as follows:

Year	Operating Leases	Operating Leases
Three months ended December 31, 2023	$ 22	
2024	86	
Nine months ended December 31, 2024		$ 64
2025	52	55
2026	29	31
2027	21	21
2028		17
Thereafter	–	10
Total lease payments	210	198
Less: Interest	(7)	(26)
Present value of lease liabilities	$ 203	$ 172

The weighted-average remaining lease term for its operating leases was 3.50 3.5 years as of September 30, 2023 March 31, 2024. The weighted average discount rate of its operating leases was 10.08 9.49% as of September 30, 2023 March 31, 2024. Cash paid for amounts included in the measurement of lease liabilities was $70 and $121 for the nine months ended September 30, 2023 and 2022, respectively. Cash paid for amounts included in the measurement of lease liabilities was $24 and $35 25 for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

Note 9 – Commitments and contingencies

Litigation

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

Note 10 – Income taxes

Income taxes were recognized at effective rates of 32.5% and (0.8)% for the nine months ended September 30, 2023 and 2022, respectively. Income taxes were recognized at effective rates of 30.8% and 11.7 37.9% for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

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

The Company's effective tax rate may change from period to period based on recurring and non-recurring factors including the relative mix of pre-tax earnings (or losses), the jurisdictional mix of earnings, enacted tax legislation, state income taxes, the impact of non-deductible items, changes in valuation allowances, settlement of tax audits, and the expiration of the statute of limitations in relation to unrecognized tax benefits. The Company records discrete income tax items such as enacted tax rate changes and completed tax audits in the period in which they occur. The Company consistently reflects non-deductible officer compensation expense, non-deductible compensation expense related to equity incentive awards and separate state tax rates from period to period. Although similar items were reflected in 2023, 2024, the percentage effect is different due to the difference in pre-tax income in 2023 2024 compared to 2022. 2023.

Unrecognized tax benefits were $0 at September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The Company does not expect material changes to its unrecognized tax benefits during the next twelve months.

Note 11 – Stock-based and Other Compensation

Omnibus Incentive Plan

In December 2015, Lifeway stockholders approved the 2015 Omnibus Incentive Plan, which authorized the issuance of an aggregate of 3.5 million shares to satisfy awards of stock options, stock appreciation rights, unrestricted stock, restricted stock, restricted stock units, performance shares and performance units to qualifying employees. Under the 2015 Omnibus Incentive Plan, the Board of Directors or its Audit and Corporate Governance Compensation Committee approves stock awards to executive officers and certain senior executives, generally in the form of restricted stock or performance shares. The number of performance shares that participants may earn depends on the extent to which the corresponding performance goals have been achieved. Stock awards generally vest over a three-year performance or service period. At September 30, 2023 March 31, 2024, no shares remain available for award under the 2015 Omnibus Incentive Plan as it was terminated on August 31, 2022. However, any outstanding awards under the 2015 Omnibus Incentive Plan are unaffected by the termination of the 2015 Omnibus Incentive Plan or by the approval of the 2022 Omnibus Incentive Plan (the “2022 Plan”) as described below.

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

Awards granted under the 2022 Plan are generally subject to a minimum vesting period of at least one year. Awards may be subject to cliff-vesting or graded-vesting conditions, with graded vesting starting no earlier than one year after the grant date. The Plan Administrator may provide for shorter vesting periods in an award agreement for no more than five percent of the maximum number of shares authorized for issuance under the 2022 Plan. As of September 30, 2023 March 31, 2024, 2.77 2.64 million shares remain available to award under the 2022 Plan.

Stock Options

The following table summarizes stock option activity during the nine three months ended September 30, 2023 March 31, 2024:

	Options	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value	Options	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding at December 31, 2022	41	$ 10.42	3.22	$ –				
					(In thousands)			
Outstanding at December 31, 2023					41	$ 10.42	2.21	$ 121
Granted	–	–	–	–	–	–	–	–
Exercised	–	–	–	–	–	–	–	–
Forfeited	–	–	–	–	–	–	–	–
Outstanding at September 30, 2023	41	$ 10.42	2.47	$ –				
Exercisable at September 30, 2023	41	$ 10.42	2.47	$ –				
Outstanding at March 31, 2024					41	$ 10.42	1.97	$ 276
Exercisable at March 31, 2024					41	$ 10.42	1.97	$ 276

Restricted Stock Units

A Restricted Stock Unit ("RSU") represents the right to receive one share of common stock in the future. RSUs have no exercise price. The grant date fair value of the awards is determined by the Company's closing stock price on the grant date. Lifeway expenses RSUs over the vesting period. The following table summarizes RSU activity during the nine three months ended September 30, 2023 March 31, 2024.

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2022	164	$ 5.69
Granted	85	8.14
Shares issued upon vesting	(37)	4.57
Forfeited	(5)	6.25
Outstanding at September 30, 2023	207	$ 6.89
Vested and deferred at September 30, 2023	54	$ 5.78

	Restricted Stock Units	Weighted Average Grant Date Fair Value
	(In thousands)	
Outstanding at December 31, 2023	207	$ 6.89
Granted	33	13.73
Shares issued upon vesting	–	–
Forfeited	–	–
Outstanding at March 31, 2024	240	$ 7.82
Vested and deferred at March 31, 2024	67	$ 5.98

For the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $356 233 and $175, respectively. For the nine months ended September 30,2023 and 2022 tax-related benefits of $100 and $49, respectively, were also recognized. For the three months ended September 30, 2023 and 2022 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $154 and $48 104, respectively. For the three months ended September 30, 2023 March 31, 2024 and 2022 2023 tax-related benefits of $43 65 and $14 29, respectively, were also recognized. Future compensation expense related to restricted stock units was $832 918 as of September 30, 2023 March 31, 2024 and will be recognized on a weighted average basis over the next 1.44 1.3 years.

Long-Term Incentive Plan Compensation

Lifeway has established long-term incentive-based compensation programs for certain senior executives and key employees pursuant to the terms of its incentive plans.

2020 CEO Incentive Award

During the fourth quarter 2020, Lifeway awarded a long-term equity-based incentive of $750 to its Chief Executive Officer (the “2020 CEO Award”) depending on Lifeway’s 2020 performance levels compared to the respective targets. The equity-based incentive compensation is payable in restricted stock that vests one-third in April 2022, one-third in April 2023, and one-third in April 2024. The issuance of vested equity awards is subject to approval under the Stock Purchase Agreement dated October 1, 1999. For the nine months ended September 30, 2023 and 2022, $87 and $186 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, $18 and $44 43 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of September 30, 2023 March 31, 2024, the total remaining unearned compensation was of $42, of which $18 6 will be recognized in 2023, and $24 in 2024, respectively, subject to vesting.

2021 Equity Award

The 2021 long-term equity incentive plan compensation is based on Lifeway’s achievement of adjusted EBITDA performance versus the respective target established by the Board of Directors for 2021. Under the 2021 plan, collectively the participants earned equity-based incentive compensation of $1,069 based on Lifeway’s achievement of the respective financial target. The equity-based incentive compensation is payable in restricted stock that vests one-third in April 2022, one-third in April 2023, and one-third in April 2024. For the nine months ended September 30, 2023 and 2022, $161 and $364 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, $33 and $85 84 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. As of September 30, 2023 March 31, 2024, the total remaining unearned compensation was of $73, of which $33 7 will be recognized in 2023, $40 in 2024, respectively, subject to vesting.

2022 Equity Award

Under the 2022 long-term incentive plan, participants can earn a specified number of target level Performance Share Units ("PSUs") contingent upon the achievement of strategic milestones during the three-year Measurement Period, which is fiscal year 2022 to 2024. The strategic milestones are 1) 3-year cumulative net revenue, and 2) 3-year cumulative adjusted EBITDA. The target number of PSU awards are weighted 50% on net revenue and 50% on adjusted EBITDA. Collectively, the participants can earn 125,066 PSUs at the target level. Participants may earn more or less than the target number of shares based on actual results, however the minimum and maximum number of shares that can be earned are bound by minimum and maximum thresholds of net revenue and adjusted EBITDA. The PSU awards will be earned and will vest, if at all, after the end of the three-year measurement period based on achievement of the milestones. The PSU awards do not vest during the three-year measurement period. The PSUs have a grant date fair value of $6.25 dollars per share. For the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, $356 156 and $31 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2023 and 2022, $116 and $31 112 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively.

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

2023 Equity Award

Under the 2023 long-term incentive plan, participants can earn a specified number of target level Performance Share Units ("PSUs") contingent upon the achievement of strategic milestones during the three-year Measurement Period, which is fiscal year 2023 to 2025. The strategic milestones are 1) 3-year cumulative net revenue, and 2) 3-year cumulative adjusted EBITDA. The target number of PSU awards are weighted 50% on net revenue and 50% on adjusted EBITDA. Collectively, the participants can earn 115,622 PSUs at the target level. Participants may earn more or less than the target number of shares based on actual results, however the minimum and maximum number of shares that can be earned are bound by minimum and maximum thresholds of net revenue and adjusted EBITDA. The PSU awards will be earned and will vest, if at all, after the end of the three-year measurement period based on achievement of the milestones. The PSU awards do not vest during the three-year measurement period. The PSUs have a grant date fair value of $6.88 dollars per share. For the nine months ended September 30, 2023 and 2022, $118 and $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively. For the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, $102 130 and $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively.

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

2024 Equity Award

Under the 2024 long-term incentive plan, participants can earn a specified number of target level Performance Share Units ("PSUs") contingent upon the achievement of strategic milestones during the three-year Measurement Period, which is fiscal year 2024 to 2026. The strategic milestones are 1) 3-year cumulative net revenue, and 2) 3-year cumulative adjusted EBITDA. The target number of PSU awards are weighted 50% on net revenue and 50% on adjusted EBITDA. Collectively, the participants can earn 64,986 PSUs at the target level. Participants may earn more or less than the target number of shares based on actual results, however the minimum and maximum number of shares that can be earned are bound by minimum and maximum thresholds of net revenue and adjusted EBITDA. The PSU awards will be earned and will vest, if at all, after the end of the three-year measurement period based on achievement of the milestones. The PSU awards do not vest during the three-year measurement period. The PSUs have a grant date fair value of $13.73 dollars per share. For the three months ended March 31, 2024 and 2023, $102 and $0 was expensed as stock-based compensation expense in the consolidated statements of operations, respectively.

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

Non-Employee Director Plan

On August 31, 2022, Lifeway stockholders approved the 2022 Non-Employee Director Equity and Deferred Compensation Plan (the "2022 Director Plan"), which authorizes the grant of restricted stock units ("RSUs"), which will vest on such schedule as the Company, in its sole discretion, shall determine. Each non-employee director of the Company is eligible to be a participant in the 2022 Director Plan until they no longer serve as a non-employee director. As of the date of each annual shareholder meeting, the Company may grant each director a number of RSUs for such year and set the vesting schedule for the RSUs granted. Whether and how many RSUs the Company will grant to directors in any year is subject to the sole discretion of the Company and shall in any event be subject to the 2022 Director Plan's overall share limits. The maximum aggregate number of shares of common stock that may be issued under the 2022 Director Plan is 500 thousand shares. As of September 30, 2023 March 31, 2024, 438 430 thousand shares remain available to award under the 2022 Director Plan. The aggregate fair market value of shares underlying RSU compensation that may be issued as RSU compensation to a director in any year shall not exceed $170. In addition to the grant of RSUs, the 2022 Director Plan also provides for the deferral by electing participants of all or part of their cash compensation (in 10% increments) into a deferred cash account, and they may defer all or part of their cash and/or RSU compensation (in 10% increments) into a deferred RSU account. Deferred benefits are paid in a lump sum upon the applicable director's departure from the Board of Directors.

Retirement Benefits

Lifeway has a defined contribution plan which is available to substantially all full-time employees. Under the terms of the plan, the Company matches employee contributions under a prescribed formula. For the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023, total contribution expense recognized in the consolidated statements of operations was $364 193 and $328, respectively. For the three months ended September 30, 2023 and 2022, total contribution expense recognized in the consolidated statements of operations was $106 and $97 150, respectively.

Note 12 -Earnings Per Share

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

	Three Months Ended September 30,		Nine months Ended September 30,	
	2023	2022	2023	2022
	(In thousands)			
Weighted average common shares outstanding	14,677	15,490	14,659	15,462
Assumed exercise/vesting of equity awards	424	358	404	297
Weighted average diluted common shares outstanding	15,101	15,848	15,063	15,759

Note 13 – Related Party Transactions

Consulting Services

Lifeway obtained consulting services from Ludmila Smolyansky, a member of the Company's Board of Directors and former Chairperson of its Board of Directors. On January 4, 2022, the Company notified Ms. Smolyansky that it was terminating the amended and restated consultancy agreement effective January 17, 2022. Service fees earned are included in general and administrative expenses in the accompanying consolidated statements of operations and were $0 and $22 during each of the nine months ended September 30, 2023 and 2022, respectively. Service fees earned are included in general and administrative expenses in the accompanying consolidated statements of operations and were $0 during each of the three months ended September 30, 2023 and 2022.

Endorsement Agreement

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

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

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

Royalties earned were $0 and $400 during each of the nine months ended September 30, 2023 and 2022, respectively. Royalties earned were $0 and $100 during each of the three months ended September 30, 2023 and 2022, respectively.

Note 14 – Subsequent Event

On October 6, 2023, the Company paid the outstanding line of credit balance of $2,777 in full. There were no amounts outstanding under the line of credit after October 6, 2023, through the date of filing of these financial statements.

	Three Months Ended March 31,	
	2024	2023
	(In Thousands)	
Weighted average common shares outstanding	14,691	14,645
Assumed exercise/vesting of equity awards	531	385
Weighted average diluted common shares outstanding	15,222	15,030

Note 13 – Disaggregation of Revenue and Significant Customers

Lifeway's primary product is drinkable kefir. The Company manufactures (directly or through a co-manufacturer) and markets products under the Lifeway, Fresh Made, and GlenOaks Farms brand names, as well as under private labels on behalf of certain customers.

The Company's product categories are:

- Drinkable kefir, a cultured dairy product sold in a variety of organic and non-organic sizes, flavors, and types.
- European-style soft cheeses, including farmer cheese, white cheese, and Sweet Kiss.
- Cream and other, which primarily consists of cream, a byproduct of raw milk processing.
- Drinkable yogurt, sold in a variety of sizes and flavors.
- ProBugs, a line of kefir products designed for children.
- Other dairy, which primarily consists of Fresh Made butter and sour cream.

Net sales of products by category were as follows for the three months ended March 31:

	2024		2023	
In thousands	$	%	$	%
Drinkable Kefir other than ProBugs	36,533	82%	29,800	79%
Cheese	3,515	8%	3,345	9%
Cream and other	1,816	4%	1,920	5%
Drinkable Yogurt	1,536	3%	1,616	4%
ProBugs Kefir	866	2%	808	2%
Other dairy	368	1%	415	1%
Net Sales	44,634	100%	37,904	100%

Significant Customers

Sales are predominately to companies in the retail food industry located within the United States. Two major customers accounted for approximately 25% and 24% of net sales for the three months ended March 31, 2024 and 2023, respectively.

Geographic Information

Net sales outside the of the United States represented less than 1% of total consolidated net sales for the three months ended March 31, 2024 and 2023. Net sales are determined based on the destination where the products are shipped by Lifeway.

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in this Form 10-Q is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements, the accompanying notes, and the MD&A included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 December 31, 2023 (the "Form 10-K"). Unless otherwise specified, any description of "our", "we", and "us" in this MD&A refer to Lifeway Foods, Inc. and our subsidiaries.

Cautionary Statement Regarding Forward-Looking Statements

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

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

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

- Changes in the pricing of commodities;
- The actions and decisions of our competitors and customers, including those related to price competition;
- Our ability to successfully implement our business strategy;
- The effects of government regulation;
- Disruptions to our supply chain, or our manufacturing and distribution capabilities, including those due to cybersecurity threats; and
- Such other factors as discussed throughout Part I, Item 1 "Business"; Part I, Item 1A "Risk Factors"; and Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 , Part II, Item 1A of this Form 10-Q and that are described from time to time in our filings other periodic reports filed with the SEC.

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

Business Overview

Lifeway was founded in 1986 by Michael Smolyansky, a refugee from the former USSR who ten years after he and his family emigrated from Eastern Europe to the United States in 1976 with his wife and young daughter. States. Lifeway was the first to successfully introduce kefir to the U.S. consumer on a commercial scale, initially catering to ethnic consumers in the Chicago, Illinois metropolitan area. Lifeway has grown to become the largest producer and marketer of kefir in the U.S. and an important player in the broader market spaces of probiotic-based products and natural, “better for you” foods.

The Company's Our primary product is drinkable kefir, a cultured dairy product. Lifeway Kefir is a probiotic beverage that is tart and tangy, high in protein, calcium and vitamin D. The Company manufactures (directly or through a co-manufacturer) and markets products under the Lifeway, Fresh Made, and GlenOaks Farms brand names, as well as under private labels on behalf of certain customers.

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The Company’s product categories are:

- Drinkable Kefir, a cultured dairy product sold in a variety of organic and non-organic sizes, flavors, and types.
- European-style soft cheeses, including farmer cheese, white cheese, and Sweet Kiss.
- Cream and other, which primarily consists of cream, a byproduct of raw milk processing.
- Drinkable Yogurt, sold in a variety of sizes and flavors.
- ProBugs, a line of kefir products designed for children.
- Other Dairy, which primarily consists of Fresh Made butter and sour cream.

Recent Developments

Current Macroeconomic Environment and Inflation Impact

Since 2022, we have been experiencing experienced inflationary and cost pressures due to volatility and disruption in the global economy which have increased our production and distribution costs. We have begun to see some moderation of inflationary pressures and have experienced pricing declines in certain of our input costs, such as milk. milk, during 2023. We expect inflationary pressures to persist throughout 2023, although at lower levels than experienced in 2022. In response to these persistent inflationary and cost pressures, we instituted price increases in 2022 on many of our products. We expect that these inflation-justified price increases will continue to help mitigate a portion of our increased costs. be moderate during 2024.

We have not experienced significant supply chain disruptions or labor supply shortages and have continued to satisfy customer and consumer demand for our products. Management continues to proactively manage the supply and transportation of materials used to make and package our products, staffing, and transportation of our products to customers. This proactive planning has allowed the Company to avoid disruption to its manufacturing facilities and production, transportation, and sales and to meet the increased demand. The Company has maintained full production at all locations and does not anticipate manufacturing or staffing disruptions in the near term.

Results of Operations

Three Months Ended September 30, 2023 March 31, 2024 Compared to Three Months Ended September 30, 2022 March 31, 2023

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

	Three Months Ended September 30,			
	2023		2022	
	$	%	$	%
Net sales	**40,896**	**100.0%**	**38,140**	**100.0%**
Cost of goods sold	29,099	71.2%	29,962	78.6%
Depreciation expense	654	1.6%	590	1.5%
Total cost of goods sold	29,753	72.8%	30,552	80.1%
Gross profit	**11,143**	**27.2%**	**7,588**	**19.9%**
Selling expenses	2,884	7.1%	2,843	7.4%
General & administrative expense	3,085	7.5%	3,415	9.0%
Amortization expense	135	0.3%	135	0.4%
Total operating expenses	**6,104**	**14.9%**	**6,393**	**16.8%**
Income from operations	**5,039**	**12.3%**	**1,195**	**3.1%**
Other (expense) income:				
Interest expense	(109)	(0.3%)	(77)	(0.2%)
Gain on sales of property and equipment	–	0.0%	–	0.0%
Other (expense) income, net	(1)	0.0%	(5)	0.0%
Total other (expense) income	(110)	(0.3%)	(82)	(0.2%)
Income before provision for income taxes	**4,929**	**12.0%**	**1,113**	**2.9%**
Provision for income taxes	1,517	3.7%	130	0.3%
Net income	**3,412**	**8.3%**	**983**	**2.6%**

	Three Months Ended March 31,			
	2024		2023	
	$	%	$	%
Net sales	**44,634**	**100.0%**	**37,904**	**100.0%**
Cost of goods sold	32,438	72.7%	29,030	76.6%
Depreciation expense	661	1.5%	648	1.7%
Total cost of goods sold	33,099	74.2%	29,678	78.3%
Gross profit	**11,535**	**25.8%**	**8,226**	**21.7%**
Selling expenses	3,700	8.3%	3,519	9.3%
General & administrative expense	4,136	9.3%	3,135	8.2%
Amortization expense	135	0.3%	135	0.4%
Total operating expenses	**7,971**	**17.9%**	**6,789**	**17.9%**
Income from operations	**3,564**	**7.9%**	**1,437**	**3.8%**
Other income (expense):				
Interest expense	(51)	(0.1%)	(104)	(0.3%)
Other income (expense), net	(5)	0.0%	5	0.0%
Total other income (expense)	(56)	(0.1%)	(99)	(0.3%)
Income before provision for income taxes	**3,508**	**7.8%**	**1,338**	**3.5%**
Provision for income taxes	1,082	2.4%	508	1.3%
Net income	**2,426**	**5.4%**	**830**	**2.2%**

Net Sales

Net sales finished were at $40,896 $44,634 for the three-month period ended September 30, 2023 March 31, 2024, an increase of $2,756 $6,731 or 7.2% 17.8% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir, and to a lesser extent the impact of price increases implemented during the fourth quarter of 2022. kefir.

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

	2023		2022	
	$	%	$	%
Drinkable Kefir excluding ProBugs	$ 33,035	81%	$ 30,297	79%
Cheese	3,353	8%	3,211	9%
Cream and other	1,811	4%	1,874	4%
Drinkable yogurt	1,485	4%	1,482	5%
ProBugs Kefir	820	2%	882	2%
Other dairy	392	1%	394	1%
Net Sales	$ 40,896	100%	$ 38,140	100%

Gross Profit

Gross profit as a percentage of net sales was 27.2% 25.8% during the three-month period ended September 30, 2023 March 31, 2024. Gross profit percentage was 19.9% 21.7% in the first quarter of the prior year. The increase versus the prior year was primarily due to the higher volumes of our branded products, and the favorable impact of milk pricing, and to a lesser extent the price increases implemented during the fourth quarter of 2022 and decreased a favorable impact to transportation costs.

Selling Expenses

Selling expenses increased by $41 $181 to $2,884 $3,700 during the three-month period ended September 30, 2023 March 31, 2024 from $2,843 $3,519 during the same period in 2022. 2023. Selling expenses as a percentage of net sales decreased to 8.3% in the three-month period ended March 31, 2024 from 9.3% during the same period in 2023.

General and Administrative Expenses

General and administrative expenses decreased $330 increased $1,001 to $3,085 $4,136 during the three-month period ended September 30, 2023 March 31, 2024 from $3,415 $3,135 during the same period in 2022. 2023. The decrease increase is primarily driven by the termination of the endorsement agreement in September 2022. incentive compensation and non-routine stockholder action expense.

Provision for Income Taxes

The provision for income taxes was $1,517 $1,082 and $130 $508 during the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

The effective income tax rate for the three months ended September 30, 2023 March 31, 2024 was 30.8% compared to 11.7% 37.9% in the same period last year. The statutory Federal and state tax rates remained consistent from 2022 2024 to 2023. The Company has items that are nondeductible or are discrete adjustments to tax expense. The Company consistently reflects non-deductible officer compensation expense, non-deductible compensation expense related to equity incentive awards and separate state tax rates from period to period. Although similar items were reflected in 2023, the percentage effect is different due to the difference in pre-tax income in 2023 2024 compared to 2022. 2023.

The Company's effective tax rate may change from period to period based on recurring and non-recurring factors including the relative mix of pre-tax earnings (or losses), the jurisdictional mix of earnings, enacted tax legislation, state income taxes, the impact of non-deductible items, changes in valuation allowances, settlement of tax audits, and the expiration of the statute of limitations in relation to unrecognized tax benefits. The Company records discrete income tax items such as enacted tax rate changes and completed tax audits in the period in which they occur.

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

Nine months Ended September 30, 2023 Compared to Nine months Ended September 30, 2022

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

	Nine months Ended September 30,			
	2023		**2022**	
	$	**%**	**$**	**%**
Net sales	118,030	100.0%	105,730	100.0%
Cost of goods sold	85,428	72.4%	85,032	80.4%
Depreciation expense	1,953	1.7%	1,833	1.7%
Total cost of goods sold	87,381	74.1%	86,865	82.2%
Gross profit	30,649	25.9%	18,865	17.8%
Selling expenses	8,974	7.6%	8,527	8.1%
General & administrative expense	10,028	8.5%	9,546	9.0%
Amortization expense	405	0.3%	405	0.4%
Total operating expenses	**19,407**	**16.4%**	**18,478**	**17.5%**
Income from operations	**11,242**	**9.5%**	**387**	**0.4%**
Other (expense) income:				
Interest expense	(322)	(0.3%)	(171)	(0.2%)
Gain on sales of property and equipment	33	0.0%	–	0.0%
Other (expense) income, net	(1)	0.0%	(10)	0.0%
Total other (expense) income	(290)	(0.3%)	(181)	(0.2%)
Income before provision for income taxes	**10,952**	**9.2%**	**206**	**0.2%**
Provision (benefit) for income taxes	3,554	3.0%	(2)	0.0%
Net income	**7,398**	**6.2%**	**208**	**0.2%**

Net Sales

Net sales finished at $118,030 for the nine-month period ended September 30, 2023, an increase of $12,300 or 11.6% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir, and to a lesser extent the impact of price increases implemented during the fourth quarter of 2022.

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

	2023		2022	
	$	%	$	%
Drinkable Kefir excluding ProBugs	$ 94,174	80%	$ 82,779	78%
Cheese	10,074	9%	9,233	9%
Cream and other	5,362	4%	5,438	5%
Drinkable yogurt	4,760	4%	4,559	5%
ProBugs Kefir	2,490	2%	2,481	2%
Other dairy	1,170	1%	1,240	1%
Net Sales	$ 118,030	100%	$ 105,730	100%

Gross Profit

Gross profit as a percentage of net sales was 25.9% during the nine-month period ended September 30, 2023. Gross profit percentage was 17.8% in the prior year. The increase versus the prior year was primarily due to the higher volumes of our branded products and the favorable impact of milk pricing, and to a lesser extent the price increases implemented during the fourth quarter of 2022 and decreased transportation costs.

Selling Expenses

Selling expenses increased by $447 to $8,974 during the nine-month period ended September 30, 2023 from $8,527 during the same period in 2022. The increase is primarily due to increased compensation expense, partially offset by the reduction in royalty expense resulting from the termination of the endorsement agreement in September 2022.

General and Administrative Expenses

General and administrative expenses increased $482 to $10,028 during the nine-month period ended September 30, 2023 from $9,546 during the same period in 2022. The increase is primarily driven by incentive compensation and to a lesser extent expenses related to non-routine stockholder action, partially offset by the termination of the endorsement agreement in September 2022.

Provision (Benefit) for Income Taxes

The provision (benefit) for income taxes was $3,554 and $(2) during the nine months ended September 30, 2023 and 2022, respectively.

The effective income tax rate for the nine months ended September 30, 2023 was 32.5% compared to (0.8)% in the same period last year. The statutory Federal and state tax rates remained consistent from 2022 to 2023. The Company has items that are nondeductible or are discrete adjustments to tax expense. The Company consistently reflects non-deductible officer compensation expense, non-deductible compensation expense related to equity incentive awards and separate state tax rates from period to period. Although similar items were reflected in 2023, the percentage effect is different due to the difference in pre-tax income in 2023 compared to 2022.

The Company’s effective tax rate may change from period to period based on recurring and non-recurring factors including the relative mix of pre-tax earnings (or losses), the jurisdictional mix of earnings, enacted tax legislation, state income taxes, the impact of non-deductible items, changes in valuation allowances, settlement of tax audits, and the expiration of the statute of limitations in relation to unrecognized tax benefits. The Company records discrete income tax items such as enacted tax rate changes and completed tax audits in the period in which they occur.

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

Liquidity and Capital Resources

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

If additional borrowings are needed, $2,223 $5,000 was available under the Revolving Credit Facility as of September 30, 2023 March 31, 2024 (see Note 7, Debt). We are in compliance with the terms of the Credit Agreement and expect to meet foreseeable financial requirements. The success of our business and financing strategies will continue to provide us with the financial flexibility to take advantage of various opportunities as they arise. To date, we have been successful in generating cash and obtaining financing as needed. However, if a serious economic or credit market crisis ensues, it could have a negative effect on our liquidity, results of operations and financial condition.

As discussed in Note 14, Subsequent Events, the Company paid the outstanding line of credit balance of $2,777 in full on October 6, 2023.

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

Long-term cash requirements primarily relate to funding long-term debt repayments (see Note 7, Debt) and deferred income taxes (see Note 10, Income Taxes, in our Annual Report on Form 10-K).

Cash Flow

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

	Nine months Ended September 30,		Three months Ended March 31,	
Net Cash Flows Provided By (Used In):	**2023**	**2022**	**2024**	**2023**
Operating activities	**$ 12,144**	**$ 3,639**	**$ 1,546**	**$ 3,027**
Investing activities	**$ (3,206)**	**$ (3,189)**	**$ (2,469)**	**$ (1,762)**
Financing activities	**$ (750)**	**$ (750)**	**$ (250)**	**$ (500)**

Operating Activities

Net cash provided by operating activities was $12,144 $1,546 during the nine-month three-month period ended September 30, 2023 March 31, 2024 compared to $3,639 $3,027 in the same period in 2022. 2023. The increase decrease was primarily due to the change in working capital, partially offset by higher cash earnings driven by increased product volumes and declines in certain input costs, and the change in working capital. costs.

Investing Activities

Net cash used in investing activities was $3,206 $2,469 during the nine-month three-month period ended September 30, 2023 March 31, 2024 compared to $3,189 $1,762 in the same period in 2022. 2023. The increase in cash used reflects our planned capital spending increase during 2023 2024 compared to 2022. 2023. Our capital spending is focused in three core areas: growth, cost reduction, and facility improvements. Growth capital spending supports capacity expansion and new product innovation and enhancements. Cost reduction and facility improvements support manufacturing efficiency, safety, and productivity.

Financing Activities

Net cash used in financing activities was $750 $250 and $500 during the nine-month three-month period ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The cash used represents the quarterly principal payments under the term loan.

Debt Obligations

The Company is party to an Amended and Restated Loan and Security Agreement (as amended and modified from time to time, the “Credit Agreement”) with its existing lender and certain of its subsidiaries. The Credit Agreement provides for, among other things, a $5 million term loan to be repaid in quarterly installments of principal and interest over a term of five years, a revolving line of credit up to a maximum of $5 million (the “Revolving Credit Facility”) and an incremental facility not to exceed $5 million. The termination date of the term loan is August 18, 2026, unless earlier terminated. The termination date of the revolving credit facility is June 30, 2025, unless earlier terminated.
As of September 30, 2023 March 31, 2024, the Company had $2,777 $0 outstanding and $2,223 available for future borrowings under the revolving line of credit. Under the Credit Agreement, the Revolving Credit Facility matures on June 30, 2025. The were no letters of credit issued or outstanding as of September 30, 2023. The Company had $2,981 and $2,485 outstanding under the note payable, net of $19 $15 of unamortized deferred financing fees, fees. The Company had $5,000 available for future borrowings under the Revolving Credit Facility as of September 30, 2023 March 31, 2024.

All outstanding amounts under the loans bear interest at the Secured Overnight Financing Rate (“SOFR”), plus 2.07%. The Company’s interest rate on debt outstanding under the revolving line of credit and note payable as of September 30, 2023 March 31, 2024 was 7.34% 7.39%. Interest is payable monthly in arrears. Lifeway is also required to pay a quarterly unused line fee of 0.20% on the Revolving Credit Facility, and 7.40%, respectively. in conjunction with the issuance of any letters of credit, a letter of credit fee of 0.20%.

The Company is in compliance with all applicable financial debt covenants as of September 30, 2023 March 31, 2024. See Note 7 to our Consolidated Financial Statements for additional information regarding our indebtedness and related agreements.

As discussed in Note 14, Subsequent Events, the Company paid the outstanding line of credit balance of $2,777 in full on October 6, 2023.

Recent Accounting Pronouncements

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

Critical Accounting Policies and Estimates

A description of the Company's critical accounting policies and estimates is contained in its Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023. There were no material changes to the Company’s critical accounting policies and estimates in the nine three months ended September 30, 2023 March 31, 2024.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

The Company has established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (“SEC”), and such information is accumulated and communicated to management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosure. Management, together with our CEO and CFO, evaluated the effectiveness of the Company’s disclosure controls and procedures as of September 30, 2023 March 31, 2024. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2023 March 31, 2024.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended September 30, 2023 March 31, 2024 that has materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On August 3, 2023, the Circuit Court of Cook County, Illinois granted the Company's motion to file a Verified Second Amended Complaint ("Complaint") in the previously disclosed lawsuit by the Company against Ludmila Smolyansky and Edward Smolyansky and transferred the matter to the Chancery Division of the Circuit Court of Cook County, Illinois for adjudication of the Company's motion for a preliminary injunction and trial on Count I of the Complaint seeking a permanent injunction. The Complaint alleges additional violations of agreements between the Company and Edward Smolyansky by Mr. Smolyansky. Such additional ongoing activity by Mr. Smolyansky prompted the Company to request the additional relief of a preliminary injunction and permanent injunction against Mr. Smolyansky.
Additional information Information regarding legal proceedings is available in Note 9, Commitment and Contingencies.

ITEM 1A. RISK FACTORS.

There have been no material changes from the risk factors disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 5. OTHER INFORMATION.

None.During the quarter ended March 31, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408 of Regulation S-K.
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 November 13, 2023 May 14, 2024 reporting Lifeway's financial results for the three months ended September 30, 2023 March 31, 2024*	Furnished Herewith			

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

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

SIGNATURES

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

LIFEWAY FOODS, INC.

Date: November 13, 2023 May 14, 2024

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

Date: November 13, 2023 May 14, 2024

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: November 13, 2023 May 14, 2024

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

EXHIBIT 31.2

SECTION 302 CERTIFICATION OF C.F.O.

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

I, Eric Hanson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 13, 2023 May 14, 2024

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

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Lifeway Foods, Inc. (the "Company") for the period ended September 30, 2023 March 31, 2024 as filed with the SEC (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to her knowledge:

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

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

Date: November 13, 2023 May 14, 2024

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

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Lifeway Foods, Inc. (the "Company") for the period ended September 30, 2023 March 31, 2024 as filed with the SEC (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

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

Date: November 13, 2023 May 14, 2024

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

(Principal Financial and Accounting Officer)

EXHIBIT 99.1

Lifeway Foods® Announces Record Results for the Third First Quarter Ended September 30, 2023 March 31, 2024

Net sales increase 7.2% of $44.6 million; up 17.8% year-over-year to $40.9 million; 16 driven by volume growth of Lifeway Kefir
18th consecutive quarter of year-over-year net sales growth
730
Delivers 410 basis points of year-over-year gross profit margin expansion

Morton Grove, IL — November 13, 2023 May 14, 2024 — Lifeway Foods, Inc. (Nasdaq: LWAY) ("Lifeway" or "the Company"), a leading U.S. supplier of kefir and fermented probiotic products to support the microbiome, today reported financial results for the third first quarter ended September 30, 2023 March 31, 2024.

"Following our tremendous results in 2023, I am excited thrilled to announce that our strong momentum continued in the third report yet another record-breaking quarter as we once again set a Company record on the topline and delivered robust, year-over-year gross profit margin expansion of 730 basis points, to kick off 2024," commented Julie Smolyansky, President and Chief Executive Officer of Lifeway Foods. "Net sales were up 7.2%, marking our 16th consecutive quarter of year-over-year growth, and continued to be driven "Driven by volume growth in our flagship Lifeway drinkable kefir. kefir, we delivered our highest ever quarterly net sales of $44.6 million in the first quarter, up nearly 18% year-over-year, as our strategic sales and marketing investments continue to accelerate our sales velocities, grow awareness and win new consumers seeking better-for-you, premium products at a great value. This growth is particularly impressive as we lapped an exceptional third marked our 18th consecutive quarter of 2022, illustrating both growth and 4th consecutive quarter reporting record net sales, which demonstrates the loyalty of our customers, who have maintained their dedication core customer base. Through our strong operational execution, accompanied by favorable transportation cost tailwinds, we also continued to improve on our premium, healthy offerings key profitability metrics in light of inflation-justified price increases last year, as well as the success of quarter, highlighted by our strategic investments in capturing incremental consumers seeking better-for-you offerings at a great value. Additionally, our proactive operating discipline gross margin expansion and favorable milk pricing helped achieve vastly improved year-over-year profitability alongside the heightened sales, a testament to the execution by the whole Lifeway team. Looking ahead, we will continue to assess further distribution opportunities and pursue additional brand exposure for our core Lifeway kefir products and farmer cheese. This was an amazing net income growth. We are pleased with this strong start to the second half year, and are consistently evaluating additional brand marketing and incremental distribution opportunities in an effort to build on this high bar of 2023, and I want to thank the Lifeway team, our customers and retail partners for helping us deliver yet another quarter of record revenue. success throughout 2024."

Third First Quarter 2023 2024 Results

Net sales were $40.9 million $44.6 million for the third first quarter ended September 30, 2023 March 31, 2024, an increase of $2.8 million $6.7 million or 7.2% 17.8% from the same period of 2022. in 2023. The net sales increase was primarily driven by higher volumes of Lifeway our branded drinkable kefir, and to a lesser extent the impact of price increases implemented during the fourth quarter of 2022. kefir.

Gross profit as a percentage of net sales was 27.2% increased to 25.8% for the third first quarter ended September 30, 2023, compared to 19.9% in March 31, 2024 from 21.7% during the same period of 2022. in 2023. The 730 basis 410-basis point increase versus the prior year was primarily due to the higher volumes of Lifeway branded products, and the favorable impact of milk pricing, and to a lesser extent the price increases implemented during the fourth quarter a favorable impact of 2022 and decreased transportation costs.

Selling, general and administrative expenses as a percentage of net sales were 14.6% 17.6% for the third first quarter ended September 30, 2023, compared to 16.4% in the same period of 2022. March 31, 2024 and 2023, respectively.

The Company reported net income of $3.4 million $2.4 million or $0.23 $0.17 per basic and $0.16 per diluted common share for the third first quarter ended September 30, 2023 March 31, 2024 compared to net income of $1.0 million $0.8 million or $0.06 per basic and diluted common share during the same period in 2022. 2023.

Conference Call and Webcast

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

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About Lifeway Foods, Inc.

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

Forward-Looking Statements

This release (and oral statements made regarding the subjects of this release) contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 regarding, among other things, future operating and financial performance, product development, market position, business strategy and objectives. These statements use words, and variations of words, such as "continue," "build," "future," "increase," "drive," "believe," "look," "ahead," "confident," "deliver," "outlook," "expect," and "predict." Other examples of forward-looking statements may include, but are not limited to, (i) statements of Company plans and objectives, including the introduction of new products, or estimates or predictions of actions by customers or suppliers, (ii) statements of future economic performance, and (III) statements of assumptions underlying other statements and statements about Lifeway or its business. You are cautioned not to rely on these forward-looking statements. These statements are based on current expectations of future events and thus are inherently subject to uncertainty. If underlying assumptions prove inaccurate or known or unknown risks or uncertainties materialize, actual results could vary materially from Lifeway's expectations and projections. These risks, uncertainties, and other factors include: price competition; the decisions of customers or consumers; the actions of competitors; changes in the pricing of commodities; the effects of government regulation; possible delays in the introduction of new products; and customer acceptance of products and services. A further list and description of these risks, uncertainties, and other factors can be found in Lifeway's Annual Report on Form 10-K for the fiscal year ended December 31, 2022December 31, 2023, and the Company's subsequent filings with the SEC. Copies of these filings are available online at https://www.sec.gov, http://lifewaykefir.com/investor-relations/, or on request from Lifeway. Information in this release is as of the dates and time periods indicated herein, and Lifeway does not undertake to update any of the information contained in these materials, except as required by law. Accordingly, YOU SHOULD NOT RELY ON THE ACCURACY OF ANY OF THE STATEMENTS OR OTHER INFORMATION CONTAINED IN ANY ARCHIVED PRESS RELEASE.

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LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, March 31, 2024 and 2023 and December 31, 2022
(In thousands)

		March 31, 2024 (Unaudited)		December 31, 2023
Current assets				
Cash and cash equivalents	$	12,025	$	13,198
Accounts receivable, net of allowance for credit losses and discounts & allowances of $1,640 and $1,270 at March 31, 2024 and December 31, 2023 respectively		15,064		13,875
Inventories, net		8,130		9,104
Prepaid expenses and other current assets		1,988		2,019
Refundable income taxes		378		–
Total current assets		37,585		38,196
Property, plant and equipment, net		24,627		22,764
Operating lease right-of-use asset		172		192
Goodwill		11,704		11,704
Intangible assets, net		6,763		6,898
Other assets		1,900		1,900
Total assets	$	82,751	$	81,654
Current liabilities				
Current portion of note payable	$	1,250	$	1,250
Accounts payable		10,024		9,976
Accrued expenses		3,604		4,916
Accrued income taxes		–		474
Total current liabilities		14,878		16,616
Note payable		1,235		1,483
Operating lease liabilities		102		118
Deferred income taxes, net		3,001		3,001
Total liabilities		19,216		21,218
Commitments and contingencies (Note 9)				
Stockholders’ equity				
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at March 31, 2024 and December 31, 2023		–		–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 14,691 outstanding at March 31, 2024 and December 31, 2023		6,509		6,509
Paid-in capital		5,498		4,825
Treasury stock, at cost		(16,695)		(16,695)
Retained earnings		68,223		65,797
Total stockholders' equity		63,535		60,436
Total liabilities and stockholders' equity	$	82,751	$	81,654

		September 30, 2023 **(Unaudited)**		**December 31, 2022**
Current assets				
Cash and cash equivalents	$	12,632	$	4,444
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of $1,430 and $1,820 at September 30, 2023 and December 31, 2022 respectively		13,095		11,414
Inventories, net		9,321		9,631
Prepaid expenses and other current assets		1,621		1,445
Refundable income taxes		260		44
Total current assets		**36,929**		**26,978**
Property, plant and equipment, net		22,285		20,905
Operating lease right-of-use asset		203		174
Goodwill		11,704		11,704
Intangible assets, net		7,033		7,438
Other assets		1,900		1,800
Total assets	**$**	**80,054**	**$**	**68,999**
Current liabilities				

Current portion of note payable	$ 1,250	$ 1,250
Accounts payable	9,102	7,979
Accrued expenses	5,555	3,813
Accrued income taxes	500	–
Total current liabilities	**16,407**	**13,042**
Line of credit	**2,777**	**2,777**
Note payable	**1,731**	**2,477**
Operating lease liabilities	**130**	**104**
Deferred income taxes, net	**3,029**	**3,029**
Total liabilities	**24,074**	**21,429**
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at September 30, 2023 and December 31, 2022	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 14,691 and 14,645 outstanding at September 30, 2023 and December 31, 2022, respectively	6,509	6,509
Paid-in capital	4,338	3,624
Treasury stock, at cost	(16,695)	(16,993)
Retained earnings	61,828	54,430
Total stockholders' equity	**55,980**	**47,570**
Total liabilities and stockholders' equity	**$ 80,054**	**$ 68,999**

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the three and nine months ended September 30, 2023 March 31, 2024 and 2022
*(Unaudited)*2023
(In thousands, except per share data)

	2024	2023
Net Sales	$ 44,634	$ 37,904
Cost of goods sold	32,438	29,030
Depreciation expense	661	648
Total cost of goods sold	33,099	29,678
Gross profit	11,535	8,226
Selling expense	3,700	3,519
General and administrative expense	4,136	3,135
Amortization expense	135	135
Total operating expenses	7,971	6,789
Income from operations	3,564	1,437
Other income (expense):		
Interest expense	(51)	(104)
Other income (expense), net	(5)	5
Total other income (expense)	(56)	(99)
Income before provision for income taxes	3,508	1,338
Provision for income taxes	1,082	508
Net income	$ 2,426	$ 830
Net earnings per common share:		
Basic	$ 0.17	$ 0.06
Diluted	$ 0.16	$ 0.06
Weighted average common shares outstanding:		
Basic	14,691	14,645
Diluted	15,222	15,030

	Three Months Ended September 30,		Nine months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Net sales	**$ 40,896**	**$ 38,140**	**$ 118,030**	**$ 105,730**
Cost of goods sold	29,099	29,962	85,428	85,032
Depreciation expense	654	590	1,953	1,833
Total cost of goods sold	29,753	30,552	87,381	86,865
Gross profit	**11,143**	**7,588**	**30,649**	**18,865**
Selling expenses	2,884	2,843	8,974	8,527
General and administrative	3,085	3,415	10,028	9,546
Amortization expense	135	135	405	405
Total operating expenses	**6,104**	**6,393**	**19,407**	**18,478**
Income from operations	**5,039**	**1,195**	**11,242**	**387**
Other income (expense):				
Interest expense	(109)	(77)	(322)	(171)
Gain on sale of property and equipment	–	–	33	–
Other (expense) income, net	(1)	(5)	(1)	(10)
Total other income (expense)	(110)	(82)	(290)	(181)

Income before provision for income taxes	**4,929**	**1,113**	**10,952**	**206**
Provision (benefit) for income taxes	1,517	130	3,554	(2)
Net income	**$ 3,412**	**$ 983**	**$ 7,398**	**$ 208**
Earnings per common share:				
Basic	$ 0.23	$ 0.06	$ 0.50	$ 0.01
Diluted	$ 0.23	$ 0.06	$ 0.49	$ 0.01
Weighted average common shares:				
Basic	14,677	15,490	14,659	15,462
Diluted	15,101	15,848	15,063	15,759

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

	Three months ended March 31, 2024	2023
Cash flows from operating activities:		
Net income	$ 2,426	$ 830
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	796	783
Stock-based compensation	673	343
Non-cash interest expense	2	2
(Increase) decrease in operating assets:		
Accounts receivable	(1,189)	(572)
Inventories	974	339
Refundable income taxes	(378)	44
Prepaid expenses and other current assets	31	377
Increase (decrease) in operating liabilities:		
Accounts payable	(6)	1,046
Accrued expenses	(1,309)	(581)
Accrued income taxes	(474)	416
Net cash provided by operating activities	1,546	3,027
Cash flows from investing activities:		
Purchases of property and equipment	(2,469)	(1,762)
Net cash used in investing activities	(2,469)	(1,762)
Cash flows from financing activities:		
Repayment of note payable	(250)	(500)
Net cash used in financing activities	(250)	(500)
Net (decrease) increase in cash and cash equivalents	(1,173)	765
Cash and cash equivalents at the beginning of the period	13,198	4,444
Cash and cash equivalents at the end of the period	$ 12,025	$ 5,209
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	$ 1,934	$ 47
Cash paid for interest	$ 50	$ 130
Non-cash investing activities		
Accrued purchase of property and equipment	$ 192	$ 122
Right-of-use assets obtained in exchange for lease obligations	$ –	$ 19

	Nine months ended September 30, 2023	**2022**
Cash flows from operating activities:		
Net income	**$ 7,398**	**$ 208**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	2,358	2,238
Stock-based compensation	1,078	755
Non-cash interest expense	5	5
Bad debt expense	2	–
Deferred revenue	–	(23)
Gain on sale of equipment	(33)	–
(Increase) decrease in operating assets:		
Accounts receivable	(1,683)	(1,576)
Inventories	310	(907)
Refundable income taxes	(216)	(309)
Prepaid expenses and other current assets	(176)	(115)
Increase (decrease) in operating liabilities:		
Accounts payable	928	3,085
Accrued expenses	1,673	1,003
Accrued income taxes	500	(725)
Net cash provided by operating activities	**12,144**	**3,639**

Cash flows from investing activities:		
Purchases of property and equipment	(3,146)	(2,609)
Proceeds from sales of equipment	40	–
Acquisition, net of cash acquired	–	(580)
Purchase of investments	(100)	–
Net cash used in investing activities	**(3,206)**	**(3,189)**
Cash flows from financing activities:		
Repayment of note payable	(750)	(750)
Net cash used in financing activities	**(750)**	**(750)**
Net increase (decrease) in cash and cash equivalents	**8,188**	**(300)**
Cash and cash equivalents at the beginning of the period	4,444	9,233
Cash and cash equivalents at the end of the period	**$ 12,632**	**$ 8,933**
Supplemental cash flow information:		
Cash paid for income taxes, net	$ 3,270	$ 640
Cash paid for interest	$ 343	$ 158
Non-cash investing activities		
Accrued purchase of property and equipment	$ 194	$ 250
Increase in right-of-use assets and operating lease obligations	$ 86	$ 19

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