UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **June 30, 2025**

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

For the transition period from _____ **to** _____

Commission File Number: **001-42398**

LIFEWAY FOODS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, No Par Value	**LWAY**	**Nasdaq Global Market**
Preferred Stock Purchase Rights	**None**	**Nasdaq Global Market**

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

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

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

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

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

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

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

Number of shares of Common Stock, no par value, outstanding as of August 6, 2025: 15,226,520.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1.	Financial Statements.	3
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	26
Item 4.	Controls and Procedures.	26

PART II – OTHER INFORMATION

Item 1.	Legal Proceedings.	27
Item 1A.	Risk Factors.	27

Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	27
Item 3.	Defaults Upon Senior Securities.	27
Item 5.	Other Information.	27
Item 6.	Exhibits.	28
	Signatures.	29

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2025 and December 31, 2024
(In thousands)

	June 30, 2025 (Unaudited)	December 31, 2024
Current assets		
Cash and cash equivalents	$ 21,220	$ 16,728
Accounts receivable, net of allowance for credit losses and discounts & allowances of $1,760 and $1,590 at June 30, 2025 and December 31, 2024, respectively	16,065	15,424
Inventories, net	10,224	8,678
Prepaid expenses and other current assets	1,822	2,144
Refundable income taxes	–	631
Total current assets	**49,331**	**43,605**
Property, plant and equipment, net	30,731	26,862
Operating lease right-of-use asset	278	118
Goodwill	11,704	11,704
Intangible assets, net	6,088	6,358
Other assets	135	1,900
Total assets	**$ 98,267**	**$ 90,547**
Current liabilities		
Accounts payable	$ 11,880	$ 10,401
Accrued expenses	4,409	5,103
Total current liabilities	**16,289**	**15,504**
Operating lease liabilities	**220**	**70**
Deferred income taxes, net	**3,062**	**3,062**
Total liabilities	**19,571**	**18,636**
Stockholders' equity		
Preferred stock, no par value; 2,500 shares authorized; none issued	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 15,221 and 15,100 outstanding at June 30, 2025 and December 31, 2024, respectively	6,509	6,509
Treasury stock, at cost	(13,268)	(14,052)
Paid-in capital	2,844	4,632
Retained earnings	82,611	74,822
Total stockholders' equity	**78,696**	**71,911**
Total liabilities and stockholders' equity	**$ 98,267**	**$ 90,547**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the three and six months ended June 30, 2025 and 2024
(Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	**2024**	**2025**	**2024**
Net sales	**$ 53,901**	**$ 49,157**	**$ 99,992**	**$ 93,791**
Cost of goods sold	37,669	35,181	71,923	67,619
Depreciation expense	832	701	1,634	1,362
Total cost of goods sold	38,501	35,882	73,557	68,981
Gross profit	**15,400**	**13,275**	**26,435**	**24,810**
Selling expense	4,718	3,577	9,416	7,277
General and administrative expense	4,752	4,177	9,380	8,313
Amortization expense	135	135	270	270
Total operating expenses	**9,605**	**7,889**	**19,066**	**15,860**
Income from operations	**5,795**	**5,386**	**7,369**	**8,950**
Other income (expense):				
Interest expense	(21)	(47)	(35)	(98)
Fair Value Loss on investments	–	–	(20)	–
Gain on sale of investments	55	–	3,407	–
Other income (expense), net	82	20	156	15
Total other income (expense)	116	(27)	3,508	(83)
Income before provision for income taxes	**5,911**	**5,359**	**10,877**	**8,867**
Provision for income taxes	1,662	1,576	3,088	2,658
Net income	**$ 4,249**	**$ 3,783**	**$ 7,789**	**$ 6,209**
Net earnings per common share:				
Basic	$ 0.28	$ 0.26	$ 0.51	$ 0.42
Diluted	$ 0.28	$ 0.25	$ 0.51	$ 0.41
Weighted average common shares outstanding:				
Basic	15,206	14,727	15,170	14,709
Diluted	15,390	15,197	15,359	15,176

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, 2024	**17,274**	**$ 6,509**	**(2,583)**	**$ (16,695)**	**$ 4,825**	**$ 65,797**	**$ 60,436**
Stock-based compensation	–	–	–	–	673	–	673
Net income	–	–	–	–	–	2,426	2,426
Balance, March 31, 2024	**17,274**	**$ 6,509**	**(2,583)**	**$ (16,695)**	**$ 5,498**	**$ 68,223**	**$ 63,535**
Issuance of common stock in connection with stock-based compensation	–	–	89	575	(739)	–	(164)

Issuance of common stock on exercise of stock options	–	–	11	70	36	–	106
Stock-based compensation	–	–	–	–	737	–	737
Net income	–	–	–	–	–	3,783	3,783
Balance, June 30, 2024	**17,274**	**$ 6,509**	**(2,483)**	**$ (16,050)**	**$ 5,532**	**$ 72,006**	**$ 67,997**

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, 2025	**17,274**	**$ 6,509**	**(2,174)**	**$ (14,052)**	**$ 4,632**	**$ 74,822**	**$ 71,911**
Issuance of Common Stock	–	–	103	669	(2,278)	–	(1,609)
Stock-based compensation	–	–	–	–	326	–	326
Net income	–	–	–	–	–	3,540	3,540
Balance, March 31, 2025	**17,274**	**$ 6,509**	**(2,071)**	**$ (13,383)**	**$ 2,680**	**$ 78,362**	**$ 74,168**
Issuance of common stock in connection with stock-based compensation	–	–	18	115	(437)	–	(322)
Stock-based compensation	–	–	–	–	601	–	601
Net income	–	–	–	–	–	4,249	4,249
Balance, June 30, 2025	**17,274**	**$ 6,509**	**(2,053)**	**$ (13,268)**	**$ 2,844**	**$ 82,611**	**$ 78,696**

See accompanying notes to consolidated financial statements

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

	Six months ended June 30,	
	2025	2024
Cash flows from operating activities:		
Net income	**$ 7,789**	**$ 6,209**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	1,904	1,632
Stock-based compensation	927	1,296
Non-cash interest expense	9	17
Gain on sale of equipment	(115)	–
Gain on sale of investments	(3,407)	–
Fair value loss on investment	20	–
(Increase) decrease in operating assets:		
Accounts receivable	(640)	(651)
Inventories	(1,546)	650
Prepaid expenses and other current assets	322	531
Refundable income taxes	631	(180)
Increase (decrease) in operating liabilities:		
Accounts payable	500	(574)
Accrued expenses	(2,632)	(366)

Accrued income taxes	–	(474)
Net cash provided by operating activities	**3,762**	**8,090**
Cash flows from investing activities:		
Purchases of property and equipment	(4,526)	(3,905)
Proceeds from sale of equipment	115	–
Proceeds from sale of investments	5,206	–
Net cash provided by (used in) investing activities	**795**	**(3,905)**
Cash flows from financing activities:		
Repayment of note payable	–	(2,750)
Payment of deferred financing costs	(65)	–
Net cash used in financing activities	**(65)**	**(2,750)**
Net increase in cash and cash equivalents	**4,492**	**1,435**
Cash and cash equivalents at the beginning of the period	16,728	13,198
Cash and cash equivalents at the end of the period	**$ 21,220**	**$ 14,633**
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	$ 2,457	$ 3,312
Cash paid for interest	$ 26	$ 89
Non-cash investing activities		
Accrued purchase of property and equipment	$ 1,083	$ 106
Right-of-use assets obtained in exchange for lease obligations	$ 196	$ –

See accompanying notes to consolidated financial statements

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

Note 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") for interim financial information, and do not include certain information and footnote disclosures required for complete, audited financial statements. In the opinion of management, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. The consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2024. 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, 2024, have not materially changed. The following is a description of certain of our significant accounting policies.

Use of estimates

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

Cash and cash equivalents

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

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

Advertising and promotional costs

Advertising costs are expensed as incurred and reported in Selling expense in the Company's consolidated statement of operations. Total advertising expense was $4,418 and $2,531 for the six months ended June 30, 2025 and 2024, respectively. Total advertising expense was $2,282 and $1,159 for the three months ended June 30, 2025 and 2024, respectively.

Fair value measurements

In February 2025, the Company's $1,800 equity investment in Simple Mills was liquidated as a result of the sale of Simple Mills. The Company received cash proceeds of $5,206 and recognized a gain on the sale of investment of $3,407 during the six months ended June 30, 2025. The Company received cash proceeds of $54 and recognized a gain on the sale of investment of $54 during the three months ended June 30, 2025.

Segments

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

Recent accounting pronouncements

Issued but not yet effective

In November 2024, the Financial Accounting Standards Board ("FASB") issued ASU 2024-03, Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Topic 220-40): Disaggregation of Income Statement Expenses. The new standard requires additional disclosure of certain amounts included in the expense captions presented on the Statement of Operations as well as disclosures about selling expenses. The new standard is effective on a prospective basis, with the option for retrospective application, for our annual period ending December 31, 2027, and our interim periods during the fiscal year ending December 31, 2028. The new standard does not affect recognition or measurement in the Company's consolidated financial statements. Upon adoption, the impact of ASU 2024-03 will be limited to certain notes to the Consolidated Financial Statements.

In December 2023, the FASB issued ASU No. 2023-09: Income Taxes (Topic 740): Improvements to Income Tax Disclosures that requires entities to disclose additional information about federal, state, and foreign income taxes primarily related to the income tax rate reconciliation and income taxes paid. The new standard also eliminates certain existing disclosure requirements related to uncertain tax positions and unrecognized deferred tax liabilities. The new standard is effective for our fiscal year ending December 31, 2025, and our interim periods during the fiscal year ending December 31, 2026. The guidance does not affect recognition or measurement in the Company's consolidated financial statements. Upon adoption, the impact of ASU 2023-09 will be limited to certain notes to the Consolidated Financial Statements.

Note 3 – Inventories, net

	June 30, 2025	December 31, 2024
Ingredients	$ 3,053	$ 2,519
Packaging	2,872	2,855
Finished goods	4,299	3,304
Total inventories, net	$ 10,224	$ 8,678

Note 4 – Property, Plant and Equipment, net

	June 30, 2025	December 31, 2024
Land	$ 1,565	$ 1,565
Buildings and improvements	24,141	23,520
Machinery and equipment	38,997	38,181
Vehicles	477	477
Office equipment	758	758
Construction in process	5,459	2,163
	71,397	66,664
Less accumulated depreciation	(40,666)	(39,802)
Total property, plant and equipment, net	$ 30,731	$ 26,862

Note 5 – Goodwill and Intangible Assets

Goodwill

Goodwill consisted of the following:

	Total
Balance at December 31, 2024	

Goodwill	$ 12,948
Accumulated impairment losses	(1,244)
	$ 11,704

Balance at June 30, 2025

Goodwill	$ 12,948
Accumulated impairment losses	(1,244)
	$ 11,704

Intangible Assets

Other intangible assets, net consisted of the following:

	June 30, 2025			December 31, 2024		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Recipes	$ 44	$ (44)	$ –	$ 44	$ (44)	$ –
Customer lists and other customer related intangibles	4,529	(4,529)	–	4,529	(4,529)	–
Customer relationships	3,385	(1,612)	1,773	3,385	(1,532)	1,853
Brand names	7,948	(3,633)	4,315	7,948	(3,443)	4,505
Formula	438	(438)	–	438	(438)	–
Total intangible assets, net	$ 16,344	$ (10,256)	$ 6,088	$ 16,344	$ (9,986)	$ 6,358

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

Year	Amortization
Six months ended December 31, 2025	$ 270
2026	$ 540
2027	$ 540
2028	$ 540
2029	$ 540

The weighted-average remaining amortization expense period for the customer relationship and brand name intangible assets is 11.1 and 11.4 years, respectively, as of June 30, 2025. The weighted-average remaining amortization expense period for total intangible assets is 11.3 years as of June 30, 2025.

Note 6 – Accrued Expenses

Accrued expenses consisted of the following:

	June 30, 2025	December 31, 2024
Payroll and incentive compensation	$ 3,364	$ 4,188
Real estate taxes	507	468
Utilities	189	193
Current portion of operating lease liabilities	58	47
Other	291	207
Total accrued expenses	$ 4,409	$ 5,103

Note 7 – Debt

Revolving Credit Facility

On February 5, 2025, the Company entered into the Fifth Modification to the Amended and Restated Loan and Security Agreement (the "Fifth Modification") with its current lender. The Fifth Modification, among other things, (i) increased the commitment for revolving loans under the Credit Agreement from $5,000 to $25,000, with interest payable at either the lender Base Rate (the Prime Rate minus 1.00%) or the SOFR plus 1.75%, (ii) extended the termination date of the Credit Agreement to February 5, 2028, (iii) replaced the quarterly minimum working capital financial covenant with a financial covenant to maintain a maximum cash flow leverage ratio of no greater than 2.00 to 1.00 for each fiscal quarter commencing with the fiscal quarter ending March 31, 2025, (iv) increased the quarterly unused revolving line of credit fee to 0.25%, and (v) increased the letter of credit fee to 1.00%. The remaining material terms and conditions of the Credit Agreement remain substantially unchanged. The Company had no outstanding borrowings at the time of entry into the Fifth Modification.

As of June 30, 2025, the Company had $0 outstanding under the Revolving Credit Facility. The Company had $25,000 available for future borrowings under the Revolving Credit Facility as of June 30, 2025.

Lifeway was in compliance with the fixed charge coverage ratio and maximum cash flow leverage ratio covenants at June 30, 2025.

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 $95 and $77 (including short term leases) for the six months ended June 30, 2025 and 2024, respectively. Total lease expense was $58 and $42 (including short term leases) for the three months ended June 30, 2025 and 2024, respectively.

Future maturities of lease liabilities were as follows:

Year	Operating Leases
Six months ended December 31, 2025	$ 45
2026	82
2027	74
2028	67
2029	60
Thereafter	41
Total lease payments	369
Less: Interest	(91)
Present value of lease liabilities	$ 278

The weighted-average remaining lease term for its operating leases was 4.8 years as of June 30, 2025. The weighted average discount rate of its operating leases was 12.27% as of June 30, 2025. Cash paid for amounts included in the measurement of lease liabilities was $47 and $46 for the six months ended June 30, 2025 and 2024, respectively. Cash paid for amounts included in the measurement of lease liabilities was $28 and $22 for the three months ended June 30, 2025 and 2024, respectively.

Note 9 – Commitments and contingencies

Litigation

Lifeway from time to time, may be 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 28.4% and 30.0% for the six months ended June 30, 2025 and 2024, respectively. Income taxes were recognized at effective rates of 28.1% and 29.4% for the three months ended June 30, 2025 and 2024, respectively. The change in the Company's effective tax rate is primarily driven by changes in the amount of non-deductible officer compensation and non-deductible stock-based compensation expense.

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.

Note 11 – Stock-based and Other Compensation

Employee Incentive and Non-Employee Director Plans

The Board of Directors adopted, and the Company's stockholders approved, the "Lifeway Foods, Inc. 2022 Omnibus Incentive Plan" (the "Plan"). Under the Plan, the Compensation Committee 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 to qualifying employees. The maximum number of shares authorized to be awarded under the Plan is 3.25 million. As of June 30, 2025, 2.57 million shares remain available to award under the Plan.

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. The maximum aggregate number of shares that may be issued under the 2022 Director Plan is 500 thousand. As of June 30, 2025, 390 thousand shares remain available to award under the 2022 Director Plan.

Total compensation expense related to stock-based payments and the related income tax benefit recognized in net income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
	(In Thousands)			
Compensation expense related to stock-based payments	$ 601	$ 623	$ 927	$ 1,296
Related income tax benefit	168	66	259	131

Stock Options

The following table summarizes stock option activity during the six months ended June 30, 2025:

	Options	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
	(In thousands)			
Outstanding at December 31, 2024	30	$ 10.42	1.21	$ 426
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	–	–	–	–
Outstanding at June 30, 2025	30	$ 10.42	0.71	$ 422
Exercisable at June 30, 2025	30	$ 10.42	0.71	$ 422

Restricted Stock Units

Restricted stock unit awards generally vest based on the passage of time in approximately three equal installments on each of the first three anniversaries of the grant date. Certain non-employee directors have elected to defer receipt of their awards until their departure from the Board of Directors.

The following table summarizes restricted stock unit activity during the six months ended June 30, 2025.

	Restricted Stock Units	Weighted Average Grant Date Fair Value
	(In thousands)	
Outstanding at December 31, 2024	190	$ 8.77
Granted	18	24.53
Shares issued upon vesting	(36)	9.28
Forfeited	–	–
Outstanding at June 30, 2025	172	$ 10.32
Vested and deferred at June 30, 2025	74	$ 8.2

Unrecognized compensation expense related to nonvested restricted stock units was $687 as of June 30, 2025 and will be recognized over a weighted average period of 1.2 years. The grant date fair value of the awards is equal to the Company's closing price on the grant date.

Performance Units

Performance unit awards are granted to certain members of management. These awards include both service and performance conditions.

For performance unit awards granted in fiscal years 2023 through 2025, performance goals are established upfront and are measured over a cumulative three-year measurement period. The performance goals are 1) 3-year cumulative net revenue, and 2) 3-year cumulative adjusted EBITDA. The target number of performance unit awards are weighted 50% on net revenue and 50% on adjusted EBITDA. Participants may earn more or less than the target number of units, and 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. These awards will be converted to stock upon vesting.

The following table summarizes performance unit activity during the six months ended June 30, 2025.

	Performance Units	Weighted Average Grant Date Fair Value
	(In thousands)	
Nonvested at December 31, 2024	306	$ 8.08
Granted (1)	91	13.45
Shares issued upon vesting	(174)	6.25
Forfeited	(24)	8.41
Nonvested at June 30, 2025	199	$ 12.10

(1) Includes 55 thousand additional shares granted in connection with the vesting of the 2022 award in 2025 due to above-target performance in accordance with the terms of the award.

Unrecognized compensation expense related to nonvested performance units is estimated to be approximately $1,775 as of June 30, 2025 and are expected to be recognized over a weighted average period of 1.16 years. The grant date fair value of the awards is equal to the Company's closing price on the grant date.

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 six months ended June 30, 2025 and 2024, total contribution expense recognized in the consolidated statements of operations was $413 and $362, respectively. For the three months ended June 30, 2025 and 2024, total contribution expense recognized in the consolidated statements of operations was $152 and $169, respectively.

Note 12 - Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
	(In thousands)			
Weighted average common shares outstanding	15,206	14,727	15,170	14,709
Assumed exercise/vesting of equity awards	184	470	189	467
Weighted average diluted common shares outstanding	15,390	15,197	15,359	15,176

Note 13 – Disaggregation of Revenue and Significant Customers

The Company has one reportable segment, which manufactures and distributes cultured dairy products. Our products are produced using the same processes and materials and are sold to consumers through a common network of distributors and retailers. The Company derives revenue primarily in North America and manages the business activities on a consolidated basis. The business activities include selling cultured dairy products across various channels including retail-direct, distributor, and direct store delivery in a refrigerated format. We operate our business with a centralized financial systems infrastructure, and we share centralized resources for procurement and general and administrative activities. The accounting policies of the segment are the same as those described in the Summary of Significant Accounting Policies for the Company. Refer to Note 1 for additional information.

The Chief Executive Officer ("CEO") has been identified as our Chief Operating Decision Maker ("CODM"). The Company manages operations on a company-wide basis, thereby making determinations as to the allocation of resources as one segment. The CODM uses consolidated single-segment financial information to assess performance for the segment and decides how to allocate resources based on the Company's consolidated net income (loss), which is reported on the Consolidated Statement of Operations. The measure of segment assets is reported on the Consolidated Balance Sheet as total assets.

Products from which the reportable segment derives its revenue

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

The Company's product categories are:

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

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

	2025	2024

In thousands	$	%	$	%
Drinkable Kefir other than ProBugs	84,039	84%	77,543	83%
Cheese	7,811	8%	6,892	7%
Cream and other	4,825	5%	3,987	4%
ProBugs Kefir	1,515	1%	1,750	2%
Drinkable Yogurt	1,083	1%	2,918	3%
Other dairy	719	1%	701	1%
Net Sales	99,992	100%	93,791	100%

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

	2025		2024	
In thousands	$	%	$	%
Drinkable Kefir other than ProBugs	45,989	85%	41,010	83%
Cheese	3,999	8%	3,377	7%
Cream and other	2,366	4%	2,171	4%
ProBugs Kefir	769	1%	884	2%
Drinkable Yogurt	449	1%	1,382	3%
Other dairy	329	1%	333	1%
Net Sales	53,901	100%	49,157	100%

Significant Customers

Sales are predominately to companies in the retail food industry located within the United States. Two customers accounted for a total of approximately 25% and 26% of net sales for the six months ended June 30, 2025 and 2024, respectively. Two customers accounted for a total of 25% and 27% of net sales for the three months ended June 30, 2025 and 2024, respectively.

Geographic Information

Net sales outside the of the United States represented less than 1% of total consolidated net sales for the six months and three months ended June 30, 2025 and 2024. 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.

Note 14 – Shareholder Rights Plan

On November 4, 2024, the Company adopted a Shareholder Rights Agreement (the "Rights Agreement") and designated 40 shares of preferred stock as Series A Junior Participating Preferred Stock, none of which are issued or outstanding as of December 31, 2024. Pursuant to the Rights Agreement, the Company's board of directors declared a dividend of one preferred share purchase right (each a "Right") for each outstanding share of Company common stock to stockholders of record as of the close of business on November 18, 2024. Each Right entitles its holder, subject to the terms of the Rights Agreement, to purchase from the Company one one-thousandth of one share of Series A Junior Participating Preferred Stock, no par value, of the Company at an exercise price of $130.00 per Right, subject to adjustment. Rights will attach to any shares of Company common stock that become outstanding after November 18, 2024 and prior to the earlier of the Distribution Time (as defined in the Rights Agreement) and the redemption or expiration of the Rights, and in certain other circumstances described in the Rights Agreement. The Right expires at the end of November 4, 2025, or earlier if exercised.

Note 15 – Subsequent Events

Income Tax Legislation

The One Big Beautiful Bill Act ("OBBBA"), which includes a broad range of tax reform provisions, was enacted on July 4, 2025 and the Company continues to evaluate the impact on its financial position. We currently do not expect the OBBB Act to have a material impact on our estimated annual effective tax rate or cash flows in the current fiscal year.

Organic Milk Supply

To increase the supply of organic milk available to the Company for the manufacture of finished goods, the Company is purchasing mature dairy cows (or the "herd") which will be managed by a third-party dairy facility (the "Dairy"), and expects to enter into a supply and purchase agreement ("SPA") with a COOP (the "COOP") to purchase the milk produced by the herd.

The Company purchased 224 mature dairy cows during July 2025 for $694 and will consider further mature dairy cow purchases in the future.

On July 1, 2025, the Company entered into a thirty-nine month agreement (the "Herd Agreement") with a third-party Dairy who will manage care of the herd, milk the herd, and sell the milk to a COOP, with which Lifeway will have a separate supply and purchase agreement. The Dairy will make monthly payments to Lifeway over the agreement period in exchange for its right to sell milk produced by the herd to the COOP and has a right to purchase the herd at the end of the agreement period for a nominal amount.

The Company is currently assessing the appropriate accounting treatment for the purchase of the herd and agreement with the Dairy.

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, 2024 (the "Form 10-K"). Unless otherwise specified, any description of "our", "we", and "us" in this MD&A refer to Lifeway Foods, Inc. ("Lifeway") and our wholly-owned subsidiaries.

Cautionary Statement Regarding Forward-Looking Statements

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

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

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

- Changes in the pricing of commodities;
- The actions and decisions of our competitors and customers, including those related to price competition;
- Our ability to successfully implement our business strategy;
- The effects of government regulation;
- Disruptions to our supply chain, or our manufacturing and distribution capabilities, including those due to cybersecurity threats;
- Adverse economic conditions in the United States, our primary market, or any of the other jurisdictions in which we conduct significant business in the future, and resultant changes in consumer spending; 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, 2024 , Part II, Item 1A of this Form 10-Q and that are described from time to time in our other periodic reports filed with the SEC.

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

Business Overview

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

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

The Company's product categories are:

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

Recent Developments and Trends

Organic Milk Supply

To increase the supply of organic milk available to the Company for the manufacture of finished goods, the Company is purchasing mature dairy cows (or the "herd") which will be managed by a third-party dairy facility (the "Dairy"), and expects to enter into a supply and purchase agreement ("SPA") with a COOP (the "COOP") to purchase the milk produced by the herd.

The Company purchased 224 mature dairy cows during July 2025 for $694 and will consider further mature dairy cow purchases in the future.

On July 1, 2025, the Company entered into a thirty-nine month agreement (the "Herd Agreement") with a third-party Dairy who will manage care of the herd, milk the herd, and sell the milk to a COOP, with which Lifeway will have a separate supply and purchase agreement. The Dairy will make monthly payments to Lifeway over the agreement period in exchange for its right to sell milk produced by the herd to the COOP and has a right to purchase the herd at the end of the agreement period for a nominal amount.

The Company is currently assessing the appropriate accounting treatment for the purchase of the herd and agreement with the Dairy.

Current Macroeconomic Environment

We continue to monitor macroeconomic conditions and global trade developments, including inflation in key input costs, recently implemented tariffs, and the potential for additional or modified tariffs or export controls. These evolving global trade policies may contribute to increased supply chain complexity, commodity cost volatility, and broader economic uncertainty. We do not currently expect these conditions to have a material adverse impact on our operations or financial results. We are primarily a United States based manufacturer sourcing a vast majority of our inputs domestically. In addition, all our domestically produced products are sold to customers in the United States. We expect the accelerating consumer focus on health and wellness to drive increased demand for our products.

Results of Operations

Three Months Ended June 30, 2025 Compared to Three Months Ended June 30, 2024

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

	Three Months Ended June 30,			
	2025		2024	
	$	%	$	%
Net sales	**53,901**	**100.0%**	**49,157**	**100.0%**
Cost of goods sold	37,669	69,9%	35,181	71.6%
Depreciation expense	832	1.5%	701	1.4%
Total cost of goods sold	38,501	71.4%	35,882	73.0%
Gross profit	**15,400**	**28.6%**	**13,275**	**27.0%**
Selling expenses	4,718	8.8%	3,577	7.3%
General & administrative expense	4,752	8.8%	4,177	8.5%
Amortization expense	135	0.3%	135	0.3%
Total operating expenses	**9,605**	**17.9%**	**7,889**	**16.1%**
Income from operations	**5,795**	**10.7%**	**5,386**	**10.9%**
Other income (expense):				
Interest expense	(21)	0.0%	(47)	(0.1%)
Fair value loss on investments	–	0.0%	–	0.0%
Gain on sales of investments	55	0.1%	–	0.0%
Other income (expense), net	82	0.2%	20	0.0%
Total other income (expense)	116	0.3%	(27)	(0.1%)
Income before provision for income taxes	**5,911**	**11.0%**	**5,359**	**10.8%**
Provision for income taxes	1,662	3.1%	1,576	3.2%
Net income	**4,249**	**7.9%**	**3,783**	**7.6%**

Net Sales

Net sales were at $53,901 for the three-month period ended June 30, 2025, an increase of $4,744 or 9.7% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir, partially offset by the planned trade promotion investment to support incremental distribution of farmers cheese and kefir. The second quarter 2024 benefited from a customer relationship we strategically exited in the third quarter of 2024, and a significant distributor shifting from Lifeway delivered to customer pick-up in late 2024, which results in lower net sales and lower freight out expense. On a comparable basis adjusting for these two factors, the Company's net sales increased approximately 18% in the second quarter of 2025 compared to the same period in 2024.

Gross Profit

Gross profit as a percentage of net sales was 28.6% and 27.0% in the three-month period ended June 30, 2025 and 2024, respectively. The increase versus the prior year was driven by higher volumes of our branded products, which provided manufacturing efficiencies and the favorable impact of conventional milk pricing, partially offset by unfavorable organic milk pricing and planned trade promotion investment.

Selling Expenses

Selling expenses increased by $1,141 to $4,718 during the three-month period ended June 30, 2025 from $3,577 during the same period in 2024. Selling expenses as a percentage of net sales increased to 8.7% in the three-month period ended June 30, 2025 from 7.3% during the same period in 2024. The increase is primarily a result of our continued investments in marketing activities to drive brand awareness and sales volumes.

General and Administrative Expenses

General and administrative expenses increased $575 to $4,752 during the three-month period ended June 30, 2025 from $4,177 during the same period in 2024. The increase is primarily driven by professional fees associated with non-routine stockholder action and the Danone unsolicited purchase proposal.

Provision for Income Taxes

Income taxes were recognized at effective rates of 28.1% and 29.4% for the three months ended June 30, 2025 and 2024, respectively. The change in the Company's effective tax rate is primarily driven by changes in the amount of non-deductible officer compensation and non-deductible stock-based compensation expense.

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.

Six Months Ended June 30, 2025 Compared to Three Months Ended June 30, 2025

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

	Six Months Ended June 30,			
	2025		2024	
	$	%	$	%
Net sales	**99,992**	**100.0%**	**93,791**	**100.0%**
Cost of goods sold	71,923	71.9%	67,619	72.1%
Depreciation expense	1,634	1.6%	1,362	1.5%
Total cost of goods sold	73,557	73.5%	68,981	73.6%
Gross profit	**26,435**	**26.5%**	**24,810**	**26.4%**
Selling expense	9,416	9.4%	7,277	7.8%
General & administrative expense	9,380	9.4%	8,313	8.9%
Amortization expense	270	0.3%	270	0.3%
Total operating expenses	**19,066**	**19.1%**	**15,860**	**17.0%**
Income from operations	**7,369**	**7.4%**	**8,950**	**9.4%**
Other income (expense):				
Interest expense	(35)	0.0%	(98)	(0.1%)
Fair value loss on investments	(20)	0.0%	–	0.0%
Gain on investments	3,407	3.4%	–	0.0%
Other income (expense), net	156	0.2%	15	0.0%
Total other income (expense)	3,508	3.6%	(83)	(0.1%)
Income before provision for income taxes	**10,877**	**11.0%**	**8,867**	**9.3%**
Provision for income taxes	3,088	3.1%	2,658	2.8%
Net income	**7,789**	**7.9%**	**6,209**	**6.5%**

Net Sales

Net sales were at $99,992 for the six-month period ended June 30, 2025, an increase of $6,201 or 6.6% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir, partially offset by the planned trade promotion investment to support incremental distribution of farmers cheese and kefir. The first six months of 2024 benefited from a customer relationship we strategically exited in the third quarter of 2024, and a significant distributor shifting from Lifeway delivered to customer pick-up in late 2024, which results in lower net sales and lower freight out expense. On a comparable basis adjusting for these two factors, the Company's net sales increased approximately 14% in the first six months of 2025 compared to the same period in 2024.

Gross Profit

Gross profit as a percentage of net sales was 26.5% and 26.4% during the six-month period ended June 30, 2025 and 2024, respectively. The increase versus the prior year was driven by higher volumes of our branded products, which provided manufacturing efficiencies, partially offset by organic milk pricing and planned trade promotion investment.

Selling Expense

Selling expense increased by $2,139 to $9,416 during the six-month period ended June 30, 2025 from $7,277 during the same period in 2024. Selling expenses as a percentage of net sales increased to 9.4% in the six-month period ended June 30, 2025 from 7.8% during the same period in 2024. The increase is primarily a result of our continued investments in marketing activities to drive brand awareness and sales volumes.

General and Administrative Expense

General and administrative expense increased $1,067 to $9,380 during the six-month period ended June 30, 2025 from $8,313 during the same period in 2024. The increase is primarily driven by professional fees associated with non-routine stockholder action and the Danone unsolicited purchase proposal.

Provision for Income Taxes

The provision for income taxes was $3,088 and $2,658 during the six months ended June 30, 2025 and 2024, respectively.

The effective income tax rate for the six months ended June 30, 2025 was 28.4% compared to 30.0% in the same period last year.

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 believes that its cash flow from operations, revolving credit 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, $25,000 was available under the Revolving Credit Facility as of June 30, 2025 (see Note 7, Debt). We are in compliance with the terms of the Credit Agreement and expect to meet foreseeable financial requirements. The success of our business and financing strategies will continue to provide us with the financial flexibility to take advantage of various opportunities as they arise. To date, we have been successful in generating cash and obtaining financing as needed. However, if a serious economic or credit market crisis ensues, it could have a negative effect on our liquidity, results of operations and financial condition.

The Company's most significant ongoing short-term cash requirements relate primarily to funding operations (including expenditures for raw materials, labor, manufacturing and distribution, trade and promotions, advertising and marketing, and 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:

	Six months Ended June 30,	
Net Cash Flows Provided By (Used In):	**2025**	**2024**
Operating activities	$ 3,762	$ 8,090
Investing activities	$ 795	$ (3,905)
Financing activities	$ (65)	$ (2,750)

Operating Activities

Net cash provided in operating activities was $3,762 and $8,090 during the six-month period ended June 30, 2025 and 2024, respectively. The decrease was primarily due lower cash earnings and the change in working capital.

Investing Activities

Net cash provided by investing activities was $795 during the six-month period ended June 30, 2025 compared to net cash used in investing activities of $3,905 in the

same period in 2024. The decrease in cash used reflects cash proceeds of $5,152 received in the first quarter and $54 in the second quarter of 2025 from the sale of our Simple Mills investment. 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 $65 and $2,750 during the six-month period ended June 30, 2025 and 2024, respectively. The cash used in 2025 represents credit agreement amendment expenses incurred during the first quarter. The cash used in 2024 represented the quarterly principal payments under the term loan, which was paid in full during the second quarter of 2024.

Debt Obligations

As of June 30, 2025, the Company had $0 outstanding under the Revolving Credit Facility. The Company had $25,000 available for future borrowings under the Revolving Credit Facility as of June 30, 2025.

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 maximum cash flow leverage ratio of no greater than 2.00 to 1.00 for each fiscal quarter commencing with the fiscal quarter ending March 31, 2025.

The Company is in compliance with all applicable financial debt covenants as of June 30, 2025. See Note 7 to our Consolidated Financial Statements for additional information regarding our indebtedness and related agreements.

Recent Accounting Pronouncements

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

Critical Accounting Policies and Estimates

A description of the Company's critical accounting policies and estimates is contained in its Annual Report on Form 10-K for the year ended December 31, 2024. There were no material changes to the Company's critical accounting policies and estimates in the six months ended June 30, 2025.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

The Company has established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission ("SEC"), and such information is accumulated and communicated to management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. Management, together with our CEO and CFO, evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2025. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of June 30, 2025.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended June 30, 2025 that has materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

There have been no material changes from the risk factors disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2024.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 5. OTHER INFORMATION.

During the quarter ended June 30, 2025, 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 August 12, 2025 reporting Lifeway's financial results for the three months ended June 30, 2025*	Furnished Herewith			
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)				
101.SCH	Inline XBRL Taxonomy Extension Schema Document				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (formatted in IXBRL, and included in exhibit 101).				

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

SIGNATURES

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

LIFEWAY FOODS, INC.

Date: August 12, 2025

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

Date: August 12, 2025

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