UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 2026

☐ 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

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

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

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

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

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

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

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

Number of shares of Common Stock, no par value, outstanding as of November 9, 2026: 15,108,297.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2026 and December 31, 2025
(In thousands)

	September 30, 2026 (Unaudited)	December 31, 2025
Current assets		
Cash and cash equivalents	$ 6,975	$ 5,571
Accounts receivable, net of allowance for credit losses and discounts & allowances of $2,900 and $1,730 at September 30, 2026 and December 31, 2025, respectively	22,353	16,643
Inventories, net	13,594	11,890
Prepaid expenses and other current assets	2,470	2,627
Refundable income taxes	636	325
Total current assets	**46,028**	**37,056**
Property, plant and equipment, net	67,393	48,282
Operating lease right-of-use asset	504	465
Goodwill	11,704	11,704
Intangible assets, net	5,413	5,818
Other assets	1,629	2,285
Total assets	**$ 132,671**	**$ 105,610**
Current liabilities		
Accounts payable	$ 12,739	$ 11,008
Accrued expenses	6,363	5,413
Accrued income taxes	716	218
Total current liabilities	**19,818**	**16,639**
Line of credit	**11,950**	–
Note payable	**12,032**	–
Operating lease liabilities	**370**	**360**
Deferred income taxes, net	**2,792**	**2,792**
Other long-term liabilities	**251**	–
Total liabilities	**47,213**	**19,791**
Commitments and contingencies (Note 9)	–	–
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; 15,108 and 15,232 outstanding at September 30, 2026 and December 31, 2025, respectively	6,509	6,509
Treasury stock, at cost	(17,194)	(13,214)
Paid-in capital	2,401	3,843
Retained earnings	93,742	88,681
Total stockholders' equity	**85,458**	**85,819**
Total liabilities and stockholders' equity	**$ 132,671**	**$ 105,610**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the three and nine months ended September 30, 2026 and 2025
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,	Nine Months Ended September 30,

	2026	2025	2026	2025
Net sales	**$ 67,797**	**$ 57,143**	**$ 197,702**	**$ 157,135**
Cost of goods sold	54,599	39,821	152,199	111,744
Depreciation expense	1,034	914	2,962	2,548
Total cost of goods sold	55,633	40,735	155,161	114,292
Gross profit	**12,164**	**16,408**	**42,541**	**42,843**
Selling expense	6,434	5,047	20,256	14,463
General and administrative expense	4,510	6,186	13,870	15,566
Amortization expense	135	135	405	405
Total operating expenses	**11,079**	**11,368**	**34,531**	**30,434**
Income from operations	**1,085**	**5,040**	**8,010**	**12,409**
Other income (expense):				
Interest expense	(340)	(21)	(623)	(56)
Fair Value Loss on investments	–	–	–	(20)
Gain on sale of investments	–	–	–	3,407
Other income (expense), net	20	73	42	229
Total other income (expense)	(320)	52	(581)	3,560
Income before provision for income taxes	**765**	**5,092**	**7,429**	**15,969**
Provision for income taxes	505	1,563	2,368	4,651
Net income	**$ 260**	**$ 3,529**	**$ 5,061**	**$ 11,318**
Net earnings per common share:				
Basic	$ 0.02	$ 0.23	$ 0.33	$ 0.75
Diluted	$ 0.02	$ 0.23	$ 0.33	$ 0.74
Weighted average common shares outstanding:				
Basic	15,107	15,229	15,174	15,190
Diluted	15,253	15,422	15,314	15,381

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, 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**
Issuance of common stock in connection with stock-based compensation	–	–	8	35	(35)	–	–
Stock-based compensation	–	–	–	–	539	–	539
Net income	–	–	–	–	–	3,529	3,529
Balance, September 30, 2025	**17,274**	**$ 6,509**	**(2,045)**	**$ (13,233)**	**$ 3,348**	**$ 86,140**	**$ 82,764**

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

	Common Stock						
	Issued		In treasury		Paid-In	Retained	Total
	Shares	$	Shares	$	Capital	Earnings	Equity
Balance, January 1, 2026	**17,274**	**$ 6,509**	**(2,042)**	**$ (13,214)**	**$ 3,843**	**$ 88,681**	**$ 85,819**
Issuance of common Stock	–	–	50	325	(761)	–	(436)
Equity award settled in cash	–	–	–	–	(283)	–	(283)
Stock-based compensation	–	–	–	–	548	–	548
Net income	–	–	–	–	–	4,674	4,674
Balance, March 31, 2026	**17,274**	**$ 6,509**	**(1,992)**	**$ (12,889)**	**$ 3,347**	**$ 93,355**	**$ 90,322**
Issuance of common Stock	–	–	77	609	(2,082)	–	(1,473)
Repurchase of common stock	–	–	(253)	(4,937)	–	–	(4,937)
Stock-based compensation	–	–	–	–	535	–	535
Net income	–	–	–	–	–	127	127
Balance, June 30, 2026	**17,274**	**$ 6,509**	**(2,168)**	**$ (17,217)**	**$ 1,800**	**$ 93,482**	**$ 84,574**
Issuance of common Stock	–	–	3	23	(23)	–	–
Stock-based compensation	–	–	–	–	624	–	624
Net income	–	–	–	–	–	260	260
Balance, September 30, 2026	**17,274**	**$ 6,509**	**(2,165)**	**$ (17,194)**	**$ 2,401**	**$ 93,742**	**$ 85,458**

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,	
	2026	2025
Cash flows from operating activities:		
Net income	**$ 5,061**	**$ 11,318**
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	3,367	2,953
Stock-based compensation	1,708	1,466
Non-cash interest expense	16	14
Bad debt expense	87	–
Gain on sale of equipment	(17)	(115)
Gain on sale of investments	–	(3,407)
Fair value loss on investment	–	20
(Increase) decrease in operating assets:		
Accounts receivable	(5,797)	(1,997)
Inventories	(1,704)	(2,378)
Prepaid expenses and other current assets	354	123
Refundable income taxes	(311)	497
Increase (decrease) in operating liabilities:		
Accounts payable	2,413	3,330
Accrued expenses	(988)	(1,143)
Accrued income taxes	497	–
Other long-term liabilities	251	–
Net cash provided by operating activities	**4,937**	**10,681**

Cash flows from investing activities:		
Purchases of property and equipment	(22,757)	(9,675)
Proceeds from sale of equipment	433	115
Proceeds from sale of investments	–	5,206
Net cash (used in) provided by investing activities	**(22,324)**	**(4,354)**
Cash flows from financing activities:		
Purchase of treasury stock	(4,937)	–
Borrowings under line of credit	25,000	–
Repayments under line of credit	(13,000)	–
Proceeds from note payable	12,032	–
Payment of deferred financing costs	(21)	(65)
Equity award settled in cash	(283)	–
Net cash provided by (used in) financing activities	**18,791**	**(65)**
Net increase in cash and cash equivalents	**1,404**	**6,262**
Cash and cash equivalents at the beginning of the period	5,571	16,728
Cash and cash equivalents at the end of the period	**$ 6,975**	**$ 22,990**
Supplemental cash flow information:		
Cash paid for income taxes, net of (refunds)	$ 2,181	$ 4,154
Cash paid for interest	$ 511	$ 42
Non-cash investing activities		
Accrued purchase of property and equipment	$ 93	$ 3,875
Right-of-use assets obtained in exchange for lease obligations	$ 135	$ 293

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, 2025. 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, 2025, 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 $11,843 and $6,965 for the nine months ended September 30, 2026 and 2025, respectively. Total advertising expense was $3,681 and $2,548 for the three months ended September 30, 2026 and 2025, 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 nine months ended September 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.

We have reviewed other recently issued accounting pronouncements and concluded that either they are not applicable to our business, or no material effect is expected upon future adoption.

Note 3 – Inventories, net

	September 30, 2026	December 31, 2025
Ingredients	$ 4,910	$ 4,141
Packaging	4,591	3,452
Finished goods	4,093	4,297
Total inventories, net	$ 13,594	$ 11,890

Note 4 – Property, Plant and Equipment, net

	September 30, 2026	December 31, 2025
Land	$ 1,565	$ 1,565
Buildings and improvements	32,519	24,497
Machinery and equipment	44,598	43,433
Vehicles	477	477
Office equipment	623	694
Construction in process	32,583	19,803
	112,365	90,469
Less accumulated depreciation	(44,972)	(42,187)
Total property, plant and equipment, net	$ 67,393	$ 48,282

Note 5 – Goodwill and Intangible Assets

Goodwill

Goodwill consisted of the following:

	Total
Balance at December 31, 2025	
Goodwill	$ 12,948
Accumulated impairment losses	(1,244)
	$ 11,704
Balance at September 30, 2026	
Goodwill	$ 12,948
Accumulated impairment losses	(1,244)
	$ 11,704

Intangible Assets

Other intangible assets, net consisted of the following:

	September 30, 2026			December 31, 2025		
	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	(1,812)	1,573	3,385	(1,692)	1,693
Brand names	7,948	(4,108)	3,840	7,948	(3,823)	4,125
Formula	438	(438)	–	438	(438)	–
Total intangible assets, net	$ 16,344	$ (10,931)	$ 5,413	$ 16,344	$ (10,526)	$ 5,818

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

Year	Amortization
Three months ended December 31, 2026	$ 135
2027	$ 540
2028	$ 540
2029	$ 540
2030	$ 540

The weighted-average remaining amortization expense period for the customer relationship and brand name intangible assets is 9.8 and 10.1 years, respectively, as of September 30, 2026. The weighted-average remaining amortization expense period for total intangible assets is 10.0 years as of September 30, 2026.

Note 6 – Accrued Expenses

Accrued expenses consisted of the following:

	September 30, 2026	December 31, 2025
Payroll and incentive compensation	$ 5,160	$ 4,386
Real estate taxes	438	483
Utilities	290	189
Current portion of operating lease liabilities	134	106
Other	341	249
Total accrued expenses	$ 6,363	$ 5,413

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 Secured Overnight Financing Rate ("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.

On December 29, 2025, the Company entered into the Sixth Modification to the Amended and Restated Loan and Security Agreement (the "Sixth Modification") with its current lender. The Sixth Modification, provides for, among other things, (i) modification of the Fixed Charge Coverage Ratio only for the period from December 31, 2025 through June 30, 2027 to exclude the Waukesha, WI unfinanced capital expenditures attributable to plant optimization and manufacturing capacity expansion as approved by lender, up to $50,000 (ii) modification of the Change of Control definition to reflect that specified changes to the Company's board of directors do not constitute a Change of Control and (iii) extended the termination date of the Credit Agreement to February 5, 2029. 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 Sixth Modification.

As of September 30, 2026, the Company had $12,000 outstanding under the Revolving Credit Facility and net unamortized deferred financing costs of $50 related to the Revolving Credit Facility which were included as a direct deduction from the outstanding line of credit. The Company had $13,000 available for future borrowings under the Revolving Credit Facility as of September 30, 2026. Lifeway's interest rate on debt outstanding under the Revolving Credit Facility as of September 30, 2026 was 5.63%.

Interim Funding Agreement

On June 30, 2026, the Company entered into a Master Security Agreement (the "MSA") with its current lender. The MSA provides for loan advances under an Interim Funding Agreement (the "Interim Funding Agreement") to finance or refinance the acquisition of equipment, subject to lender's acceptance of collateral documentation, up to $22,000 in the aggregate, during an interim funding period which expires June 30, 2027. Interest on the loan advances is payable monthly in arrears at the 1-month Term SOFR plus 1.65%.

Upon the conclusion of loan advances under the Interim Funding Agreement, and the execution of a Collateral Schedule by lender and Lifeway, all loan advances outstanding on the date of such Collateral Schedule (the "Conversion Date"), shall be converted into the Equipment Guidance Line Note (the "Note"). The note is payable in monthly installments of principal and interest and matures five years after the Conversion Date. Interest is payable monthly in arrears at the 1-month Term SOFR plus 1.65%.

As of September 30, 2026, the Company had $12,032 outstanding under the Interim Funding Agreement and the balance is classified as a long-term note payable on the consolidated balance sheet. The Company had $9,968 available for future advances under the Interim Funding Agreement as of September 30, 2026. Lifeway's interest rate on debt outstanding under the Interim Funding Agreement as of September 30, 2026 was 5.39%.

Lifeway was in compliance with the fixed charge coverage ratio and maximum cash flow leverage ratio covenants at September 30, 2026.

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 $215 and $146 (including short term leases) for the nine months ended September 30, 2026 and 2025, respectively. Total lease expense was $80 and $51 (including short term leases) for the three months ended September 30, 2026 and 2025, respectively.

Future maturities of lease liabilities were as follows:

Year	Operating Leases
Three months ended December 31, 2026	$ 44
2027	174
2028	158
2029	111
2030	78
Thereafter	41
Total lease payments	606
Less: Interest	(102)
Present value of lease liabilities	$ 504

The weighted-average remaining lease term for its operating leases was 3.8 years as of September 30, 2026. The weighted average discount rate of its operating leases was 9.73% as of September 30, 2026. Cash paid for amounts included in the measurement of lease liabilities was $135 and $73 for the nine months ended September 30, 2026 and 2025, respectively. Cash paid for amounts included in the measurement of lease liabilities was $45 and $25 for the three months ended September 30, 2026 and 2025, 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 31.9% and 29.1% for the nine months ended September 30, 2026 and 2025, respectively. Income taxes were recognized at effective rates of 66.0% and 30.3% for the three months ended September 30, 2026 and 2025, respectively. Statutory Federal and state tax rates remained consistent from 2025 to 2026. 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 stock-based compensation expense and separate state tax rates from period to period. Although similar

items were reflected in the three months ended September 30, 2026, the percentage effect is different due to the difference in pre-tax income in the three months ended September 30, 2026 compared to the same period in 2025.

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.

On July 4, 2025, the One Big Beautiful Bill Act ("OBBBA") was signed into law in the United States. The OBBBA includes a broad range of changes to U.S. tax law, which did not have a material impact on our estimated annual effective tax rate as of September 30, 2026, and we do not expect the elective provisions of the law to have a material impact on our effective tax rate in future periods. Further, certain provisions of the OBBBA impact the timing of cash tax payments, primarily due to significant bonus depreciation on qualified property related to the Waukesha Wisconsin facility expansion project which is expected to be completed in 2027. As a result, we estimate lower cash tax payments through 2028.

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 September 30, 2026, 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 September 30, 2026, 358 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 September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
	(In Thousands)			
Compensation expense related to stock-based payments	$ 624	$ 539	$ 1,708	$ 1,466
Related income tax benefit	175	151	478	410

Stock Options

The following table summarizes stock option activity during the nine months ended September 30, 2026:

	Options	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
	(In thousands)			
Outstanding at December 31, 2025	13	$ 9.57	0.49	$ 193
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	(13)	9.57	–	–
Outstanding at September 30, 2026	–	$ –	0.00	$ –
Exercisable at September 30, 2026	–	$ –	0.00	$ –

Restricted Stock Units

Restricted stock unit awards granted to employees generally vest in three equal installments on each yearly anniversary of the grant date. Restricted stock unit awards granted to non-employee directors vest in one installment on the yearly anniversary 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 nine months ended September 30, 2026.

	Restricted Stock Units	Weighted Average Grant Date Fair Value
	(In thousands)	
Nonvested, at December 31, 2025	171	$ 11.55
Granted	23	26.31
Shares issued upon vesting	(54)	10.63

Shares settled in cash	(13)	6.25
Forfeited	–	–
Nonvested, at September 30, 2026	127	$ 15.22
Earned and deferred at September 30, 2026	102	$ 10.45

Unrecognized compensation expense related to nonvested restricted stock units was $689 as of September 30, 2026 and will be recognized over a weighted average period of 0.9 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 2024 through 2026, 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.

The following table summarizes performance unit activity during the nine months ended September 30, 2026.

	Performance Units	Weighted Average Grant Date Fair Value
	(In thousands)	
Nonvested, at December 31, 2025	199	$ 12.10
Granted (1)	70	10.78
Shares issued upon vesting	(155)	6.88
Forfeited	–	–
Nonvested, at September 30, 2026	114	$ 18.43

(1) Includes 51 thousand additional shares granted in connection with the vesting of the 2023 award in 2026 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 $1,103 as of September 30, 2026 and is expected to be recognized over a weighted average period of 0.9 years. The grant date fair value of the awards is equal to the Company's closing price on the grant date.

Deferred Time-Vested and Performance-Based Cash Awards

On March 6, 2026, the Company granted deferred cash awards, consisting of time-vested and performance-based awards, to the Chief Executive Officer and Chief of Staff. These awards were issued as part of the Company's fiscal-year 2026 long-term incentive program, structured as cash awards to comply with the Company's contractual obligations applicable at the time of the grant prohibiting the issuance of equity to the Company's Chief Executive Officer and certain of her affiliates.

The deferred time-vested cash awards vest in approximately three equal installments on each yearly anniversary of the grant date.

The deferred performance-based cash award 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 cash awards are weighted 50% on net revenue and 50% on adjusted EBITDA. Participants may earn more or less than the target cash award, and are bound by minimum and maximum thresholds of net revenue and adjusted EBITDA. The deferred performance-based cash awards will be earned and will vest, if at all, after the end of the three-year measurement period.

The deferred cash awards may be settled in cash, common stock or a combination of cash and common stock at the discretion of the Company.

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 months ended September 30, 2026 and 2025, total contribution expense recognized in the consolidated statements of operations was $648 and $564, respectively. For the three months ended September 30, 2026 and 2025, total contribution expense recognized in the consolidated statements of operations was $175 and $151, respectively.

Note 12 - Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
	(In thousands)			
Weighted average common shares outstanding	15,107	15,229	15,174	15,190
Assumed exercise/vesting of equity awards	146	193	140	191
Weighted average diluted common shares outstanding	15,253	15,422	15,314	15,381

Note 13 – Reportable Segments and Disaggregated Revenue

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 and other drinkable dairy, sold in a variety of sizes and flavors.
- Other dairy, which primarily consists of butter and sour cream.

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

	2026		2025	
In thousands	$	%	$	%
Drinkable Kefir	174,006	88%	135,493	86%
Cheese	14,290	7%	11,873	8%
Cream and other	5,452	3%	6,991	4%
Drinkable Yogurt	3,090	2%	1,751	1%
Other dairy	864	–%	1,027	1%
Net Sales	197,702	100%	157,135	100%

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

	2026		2025	
In thousands	$	%	$	%
Drinkable Kefir	59,177	87%	49,939	86%
Cheese	4,952	7%	4,062	8%
Drinkable Yogurt	1,830	3%	668	1%
Cream and other	1,517	2%	2,166	4%
Other dairy	321	1%	308	1%
Net Sales	67,797	100%	57,143	100%

Beginning in the second quarter of 2026, ProBugs Kefir net sales are included in Drinkable Kefir. Prior period amounts have been reclassified in the three and nine-month tables above.

Significant Customers

Sales are predominately to companies in the retail food industry located within the United States. Two major customers accounted for a total of 25% and 24% of net sales for the nine months ended September 30, 2026 and 2025, respectively. Two major customers accounted for a total of 25% and 23% of net sales for the three months ended September 30, 2026 and 2025, respectively.

Geographic Information

Net sales outside the of the United States represented less than 1% of total consolidated net sales for the nine and three months ended September 30, 2026 and 2025. 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 June 5, 2026, the board of directors authorized and directed the Company to redeem rights of shareholders outstanding on June 5, 2026 to a dividend of Series A Junior Participating Preferred Stock (the "Rights") declared pursuant to that certain Shareholder Rights Agreement with Computershare Trust Company, N.A., as rights agent dated November 4, 2024, as amended (as amended from time to time, the "Rights Agreement"). At such time, the Rights terminated and the only right

thereafter of the holders of Rights was to receive the redemption price of $0.001 for each Right so held, which was paid in October 2026 and the Rights Agreement was terminated and is of no further force or effect.

Note 15 – Organic Milk Supply

To increase the supply of organic milk available to the Company for the manufacture of finished goods, the Company purchased mature dairy cows (or the "herd") which will be managed by a third-party dairy facility (the "Dairy"), and entered into a supply and purchase agreement ("SPA") with a COOP (the "COOP") to purchase the milk produced by the herd. The Company purchased 799 mature dairy cows during 2025 for $2,870.

On September 15, 2025, the Company entered into the First Amended Herd Agreement (the "Herd Agreement") with the Dairy who will manage care of the herd, milk the herd, and sell the milk to the COOP under the SPA, with a right to purchase the herd at the end of the sixty-month agreement period for a nominal amount. Beginning December 1, 2025, the Dairy will make monthly payments to Lifeway over the five year agreement period in exchange for its right to possess and control the herd, including the right to sell milk produced by the herd to the COOP.

On June 30, 2026, the Company entered into the Second Amended Herd Agreement with the Dairy, with an effective date ("effective date") of April 1, 2026. The Second Amendment, among other things, (1) modifies the agreement period to thirty-six months from the effective date, and (2) modifies the monthly payment amount to Lifeway over the thirty-six month agreement period.

The herd agreement is treated as a sale of non-financial assets to a party that is not a customer. The Company will recognize a sale upon the delivery of each herd to the Dairy, with interest income recognized over the agreement period. The Company has recorded $837 in prepaid and other current assets and $1,625 in other assets as of September 30, 2026 related to the herd agreement with no recorded gain or loss on sale during 2026 or 2025. The Company records the purchases of dairy cows as investing outflows, principal payments received as investing inflows, and interest income as operating inflows on the statement of cash flows.

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, 2025 (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, labor shortages or disputes, union organizing activities, financial liquidity, inclement weather, natural disasters, terrorism, geopolitical tensions, supply constraints, and general economic and political conditions;
- 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, 2025, 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.
- Other Dairy, which primarily consists of butter and sour cream.

Business Trends

Input Cost and Current Macroeconomic Environment:

During the second quarter of 2026 we experienced significant increases in our raw material input costs, which continued into the third quarter. A key input in our manufacturing process is Class II conventional milk. During the second quarter of 2026 we experienced an increase of approximately 26% in the cost of Class II conventional milk as compared to the first quarter of 2026. While the cost of our Class II conventional milk decreased minimally in the third quarter of 2026 as compared to the second quarter of 2026, we currently anticipate our average price per pound for conventional milk will be higher in the fourth quarter as compared to the third quarter of 2026.

In addition, the elevated costs we experienced in the second quarter of 2026 of resin-based packaging such as bottles and caps, as well as ingredients and transportation costs continued during the third quarter of 2026, and we currently expect the price of these inputs will continue at elevated levels during the fourth quarter of 2026.

In response to continued elevated input costs, the Company has negotiated price increases across its conventional kefir product portfolio with customers, which begin to take effect in the fourth quarter of 2026. The timing of implementation varies by customer, and certain increases are not expected to take effect until the first quarter of 2027.

We continue to monitor macroeconomic conditions and global trade developments, including further inflation in key input costs, 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, further commodity cost volatility, and broader economic uncertainty. We do not currently expect tariffs 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.

Results of Operations

Three Months Ended September 30, 2026 Compared to Three Months Ended September 30, 2025

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,			
	2026		2025	
	$	%	$	%
Net sales	**67,797**	**100.0%**	**57,143**	**100.0%**
Cost of goods sold	54,599	80.5%	39,821	69.7%
Depreciation expense	1,034	1.5%	914	1.6%
Total cost of goods sold	55,633	82.0%	40,735	71.3%
Gross profit	**12,164**	**18.0%**	**16,408**	**28.7%**
Selling expenses	6,434	9.5%	5,047	8.8%
General & administrative expense	4,510	6.7%	6,186	10.8%
Amortization expense	135	0.2%	135	0.2%
Total operating expenses	**11,079**	**16.4%**	**11,368**	**19.8%**
Income from operations	**1,085**	**1.6%**	**5,040**	**8.9%**
Other income (expense):				
Interest expense	(340)	(0.5%)	(21)	0.0%
Other income (expense), net	20	0.0%	73	0.1%
Total other income (expense)	(320)	(0.5%)	52	0.1%
Income before provision for income taxes	**765**	**1.1%**	**5,092**	**9.0%**
Provision for income taxes	505	0.7%	1,563	2.7%

Net income	**260**	**0.4%**	**3,529**	**6.3%**

Net Sales

Net sales were at $67,797 for the three-month period ended September 30, 2026, an increase of $10,654 or 18.6% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir.

Gross Profit

Gross profit as a percentage of net sales was 18.0% and 28.7% in the three-month period ended September 30, 2026 and 2025, respectively. The decrease versus the prior year was driven by the unfavorable impact of milk pricing and the increase in input costs such as resin-based packaging, ingredients and transportation costs.

Selling Expenses

Selling expenses increased by $1,387 to $6,434 during the three-month period ended September 30, 2026 from $5,047 during the same period in 2025. Selling expenses as a percentage of net sales increased to 9.5% in the three-month period ended September 30, 2026 from 8.8% during the same period in 2025. The increase is primarily a result of our continued investments in marketing activities to drive brand awareness and sales volume growth.

General and Administrative Expenses

General and administrative expenses decreased $1,676 to $4,510 during the three-month period ended September 30, 2026 from $6,186 during the same period in 2025. General and administrative expenses as a percentage of net sales decreased to 6.7% in the three-month period ended September 30, 2026 from 10.8% during the same period in 2025. The Company incurred approximately $2,400 of professional fees associated with the Danone unsolicited purchase proposal and non-routine stockholder actions during the three-month period ended September 30, 2025.

Provision for Income Taxes

Income taxes were recognized at effective rates of 66.0% and 30.3% for the three months ended September 30, 2026 and 2025, respectively. Statutory Federal and state tax rates remained consistent from 2025 to 2026. The Company has items that are non-deductible or are discrete adjustments to tax expense. The Company consistently reflects non-deductible officer compensation expense, non-deductible stock-based compensation expense and separate state tax rates from period to period. Although similar items were reflected in 2026, the percentage effect is different due to the difference in pre-tax income in 2026 compared to 2025.

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, 2026 Compared to Nine Months Ended September 30, 2025

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,			
	2026		2025	
	$	%	$	%
Net sales	**197,702**	**100.0%**	**157,135**	**100.0%**
Cost of goods sold	152,199	77.0%	111,744	71.1%
Depreciation expense	2,962	1.5%	2,548	1.6%
Total cost of goods sold	155,161	78.5%	114,292	72.7%
Gross profit	**42,541**	**21.5%**	**42,843**	**27.3%**
Selling expense	20,256	10.2%	14,463	9.2%
General & administrative expense	13,870	7.0%	15,566	9.9%
Amortization expense	405	0.2%	405	0.3%
Total operating expenses	**34,531**	**17.4%**	**30,434**	**19.4%**
Income from operations	**8,010**	**4.1%**	**12,409**	**7.9%**
Other income (expense):				
Interest expense	(623)	(0.3%)	(56)	0.0%
Fair value loss on investments	–	0.0%	(20)	0.0%
Gain on investments	–	0.0%	3,407	2.2%
Other income (expense), net	42	0.0%	229	0.1%
Total other income (expense)	(581)	(0.3%)	3,560	2.3%

Income before provision for income taxes	**7,429**	**3.8%**	**15,969**	**10.2%**
Provision for income taxes	2,368	1.2%	4,651	3.0%
Net income	**5,061**	**2.6%**	**11,318**	**7.2%**

Net Sales

Net sales were at $197,702 for the nine-month period ended September 30, 2026, an increase of $40,567 or 25.8% versus prior year. The net sales increase was primarily driven by higher volumes of our branded drinkable kefir.

Gross Profit

Gross profit as a percentage of net sales was 21.5% and 27.3% during the nine-month period ended September 30, 2026 and 2025, respectively. The decrease versus the prior year was driven by the increase in input costs such as resin-based packaging, ingredients and transportation costs, partially offset by higher volumes of our branded products, which provided manufacturing efficiencies.

Selling Expense

Selling expense increased by $5,793 to $20,256 during the nine-month period ended September 30, 2026 from $14,463 during the same period in 2025. Selling expenses as a percentage of net sales increased to 10.2% in the nine-month period ended September 30, 2026 from 9.2% during the same period in 2025. The increase is primarily a result of our continued investments in marketing activities to drive brand awareness and sales volume growth.

General and Administrative Expense

General and administrative expense decreased $1,696 to $13,870 during the nine-month period ended September 30, 2026 from $15,566 during the same period in 2025. General and administrative expenses as a percentage of net sales decreased to 7.0% in the nine-month period ended September 30, 2026 from 9.9% during the same period in 2025. The Company incurred approximately $375 of legal and professional fees associated with the sale of Danone USA Public Benefit Corporation's holdings of common stock of Lifeway Foods, Inc. in an underwritten transaction during the nine-month period ended September 30, 2026. The Company incurred approximately $4,300 of professional fees associated with the Danone unsolicited purchase proposal and non-routine stockholder actions during the nine-month period ended September 30, 2025.

Provision for Income Taxes

The effective income tax rate for the nine months ended September 30, 2026 was 31.9% compared to 29.1% in the same period last year. The change in the Company's effective tax rate is primarily driven by the decrease in pre-tax book income and 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.

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, interim funding agreement, 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, $13,000 was available under the Revolving Credit Facility and $9,968 was available under the Interim Funding Agreement as of September 30, 2026 (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:

Net Cash Flows Provided By (Used In):	Nine months Ended September 30, 2026	2025
Operating activities	$ 4,937	$ 10,681
Investing activities	$ (22,324)	$ (4,354)
Financing activities	$ 18,791	$ (65)

Operating Activities

Net cash provided by operating activities was $4,937 and $10,681 during the nine-month period ended September 30, 2026 and 2025, respectively. The decrease was primarily due to the change in working capital and to a lesser extent the decrease in cash earnings.

Investing Activities

Net cash used in investing activities was $22,324 and $4,354 during the nine-month period ended September 30, 2026 and 2025, respectively.

The increase in purchases of property and equipment is primarily driven by the expansion of manufacturing capacity and modernization of our Waukesha, Wisconsin facility. This project will enable Lifeway to meet increasing sales demand and will more than double the facility's manufacturing capacity and improve packaging efficiency, as well as other operational improvements. The Company currently estimates investing approximately $50,500. As of September 30, 2026, the cumulative cash paid for this project was $40,847 and is included on the consolidated balance sheet in property, plant and equipment, with $3,691 in-service and recorded in machinery and equipment, $7,348 in-service and recorded in leasehold improvements, and $29,808 recorded in construction in process. The project will be funded primarily through cash on-hand and cash flow from operations, with further requirements available under the Company's revolving credit facility and interim funding agreement. We expect to be able to manufacture and package at an increased scale beginning in Q1 2027, with completion of the project expected to occur during Q2 2027.

The Company received cash proceeds of $5,206 during the nine-month period ended September 30, 2025 from the sale of our Simple Mills investment.

Financing Activities

Net cash provided by financing activities was $18,791 during the nine-month period ended September 30, 2026 compared to net cash used in financing activities of $65 in the same period in 2025. The cash provided during 2026 primarily represents the line of credit and interim funding agreement borrowing in connection with the Waukesha Wisconsin facility expansion and modernization project. During the second quarter of 2026, the Company repurchased $4,937 of treasury stock in connection with the sale of Danone USA Public Benefit Corporation's holdings of common stock of Lifeway Foods, Inc. in an underwritten transaction. During the first quarter of 2026, to comply with the Company's contractual obligations in place at the time prohibiting the Company from issuing equity to the Chief Executive Officer and certain of her affiliates, the Company settled previously vested restricted stock units held by the Chief Executive Officer in cash. The cash used in 2025 represented credit agreement amendment expenses incurred during the first quarter.

Debt Obligations

As of September 30, 2026, the Company had $12,000 outstanding under the Revolving Credit Facility. The Company had $13,000 available for future borrowings under the Revolving Credit Facility as of September 30, 2026.

All outstanding amounts under the revolving line of credit bear interest at the Secured Overnight Financing Rate ("SOFR"), plus 1.75% (5.63% as of September 30, 2026). Interest is payable monthly in arrears. Lifeway is also required to pay a quarterly unused line fee of 0.25% on the Revolving Credit Facility, and in conjunction with the issuance of any letters of credit, a letter of credit fee of 1.00%.

As of September 30, 2026, the Company had $12,032 outstanding under the Interim Funding Agreement. The Company had $9,968 available for future borrowings under the Interim Funding Agreement as of September 30, 2026, subject to lender's acceptance of collateral documentation.

All outstanding amounts under the Interim Funding Agreement bear interest at the 1-month Term Secured Overnight Financing Rate ("SOFR"), plus 1.65% (5.39% as of September 30, 2026). Interest is payable monthly in arrears.

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.

The Company is in compliance with all applicable financial debt covenants as of September 30, 2026. 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, 2025. There were no material changes to the Company's critical accounting policies and estimates in the nine months ended September 30, 2026.

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, 2026. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2026.

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, 2026 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, 2025.

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

Issuer Purchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 5. OTHER INFORMATION.

During the quarter ended September 30, 2026, 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			
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 12, 2026

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

Date: November 12, 2026

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