Submission Data File

General Information	
Form Type*	10-K
Contact Name	Eric Hanson
Contact Phone	847-779-8954
Filer Accelerated Status*	Non-Accelerated Filer
Filer File Number	
Filer CIK*	0000814586 (Lifeway Foods, Inc.)
Filer CCC*	**********
Filer is Shell Company*	N
Filer is Smaller Reporting Company	Yes
Filer is Voluntary Filer*	N
Filer is Well Known Seasoned Issuer*	N
Confirming Copy	No
Notify via Website only	No
Return Copy	No
SROS*	NASD
Depositor CIK	
Period*	12-31-2019
ABS Asset Class Type	
ABS Sub Asset Class Type	
Sponsor CIK	
Emerging Growth Company	No
Elected not to use extended transition period	No
(End General Information)	

Document Information	
File Count*	15
Document Name 1*	lifeway_10k-123119.htm
Document Type 1*	10-K
Document Description 1	Form 10-K
Document Name 2*	lifeway_ex2100.htm
Document Type 2*	EX-21
Document Description 2	Subsidiaries of Lifeway Foods, Inc.
Document Name 3*	lifeway_ex2301.htm
Document Type 3*	EX-23.1
Document Description 3	Consent of Independent Registered Public Accounting Firm
Document Name 4*	lifeway_ex3101.htm
Document Type 4*	EX-31.1
Document Description 4	Section 302 Certification of Chief Executive Officer
Document Name 5*	lifeway_ex3102.htm
Document Type 5*	EX-31.2
Document Description 5	Section 302 Certification of Chief Financial Officer
Document Name 6*	lifeway_ex3201.htm

Document Type 6*	EX-32.1
Document Description 6	Section 906 Certification of Chief Executive Officer
Document Name 7*	lifeway_ex3202.htm
Document Type 7*	EX-32.2
Document Description 7	Section 906 Certification of Chief Financial Officer
Document Name 8*	lifeway_ex9901.htm
Document Type 8*	EX-99.1
Document Description 8	Press Release
Document Name 9*	image_001.gif
Document Type 9*	GRAPHIC
Document Description 9	Graphic
Document Name 10*	lway-20191231.xml
Document Type 10*	EX-101.INS
Document Description 10	XBRL Instance File
Document Name 11*	lway-20191231.xsd
Document Type 11*	EX-101.SCH
Document Description 11	XBRL Schema File
Document Name 12*	lway-20191231_cal.xml
Document Type 12*	EX-101.CAL
Document Description 12	XBRL Calculation File
Document Name 13*	lway-20191231_def.xml
Document Type 13*	EX-101.DEF
Document Description 13	XBRL Definition File
Document Name 14*	lway-20191231_lab.xml
Document Type 14*	EX-101.LAB
Document Description 14	XBRL Label File
Document Name 15*	lway-20191231_pre.xml
Document Type 15*	EX-101.PRE
Document Description 15	XBRL Presentation File
(End Document Information)	

Notifications	
Notify via Website only	No
E-mail 1	rakheen@lifeway.net
E-mail 2	erich@lifeway.net
(End Notifications)	

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

Commission file number: 000-17363

LIFEWAY FOODS, INC.
(Name of registrant as specified in its charter)

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

6431 West Oakton St., Morton Grove, Illinois 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**	**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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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, or a smaller reporting 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.

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☐	Smaller reporting company ☑	Emerging growth company ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the stock was last sold as of June 30, 2019 ($3.64 per share as quoted on the Nasdaq Global Market) was $15,486,977.

As of March 16, 2020, 15,584,847 shares of the registrant's common stock, no par value, were outstanding.

Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on June 18, 2019, are incorporated by reference into Part III.

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FORWARD LOOKING STATEMENTS

In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, readers are advised that this document, any document incorporated by reference herein, and other documents we file with the SEC, contain forward looking statements. In addition, we, or others on our behalf, may make forward looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls, and conference calls. Forward looking statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those indicated by the forward looking statements. These statements use words, variations of words, and negatives of words such as "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," "future," "predict," and "estimate." Examples of forward looking statements include, but are not limited to, (i) projections of revenues, income or loss, earnings or losses per share, capital expenditures, dividends, capital structure and other financial items, (ii) statements of Lifeway Foods, Inc.’s (the “Company”, “Lifeway”, “we”, or “our”) plans and objectives, including the introduction of new products, or estimates or predictions of actions by customers, suppliers, competitors or regulatory authorities, (iii) statements of future economic performance, and (iv) statements of assumptions underlying other statements and statements about Lifeway or its business.

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

- The actions of our competitors and customers, including those related to price competition;
- the decisions of customers or consumers;
- our ability to successfully implement our business strategy;
- changes in the pricing of commodities;
- the effects of government regulation;
- the impact of the COVID-19 outbreak on our business, suppliers, consumers, customers, and employees;
- disruptions to our supply chain, or our manufacturing and distribution capabilities, including those due to cybersecurity threats and the COVID-19 outbreak; and
- the other risks and uncertainties that are set forth in Item 1, “Business”, Item 1A “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and that are described from time to time in our filings with the SEC.

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

PART I

ITEM 1 BUSINESS

OVERVIEW

Lifeway was founded in 1986 by Michael and Ludmila Smolyansky shortly after their emigration from Russia to the United States. Mr. and Mrs. Smolyansky were 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. In the over thirty years that have followed, 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.

PRODUCTS

Our primary product is drinkable kefir, a cultured dairy product. Lifeway Kefir is tart and tangy, high in protein, calcium and vitamin D. Thanks to our exclusive blend of kefir cultures, each cup of kefir contains 12 live and active cultures and 15 to 20 billion beneficial CFU (Colony Forming Units) at the time of manufacture.

We manufacture (directly or through co-packers) our products under our own brand, as well as under private labels on behalf of certain customers. As of December 31, 2019, Lifeway offered approximately 20 varieties of our kefir products including more than 60 flavors . In addition to our core drinkable kefir products, we offer several lines of products developed through our innovation and development efforts. These include Kefir Cups, a strained, cupped version of our kefir; and Organic Farmer Cheese Cups, a cupped version of our soft cheeses, both served in resealable 5 oz. containers. We also offer Skyr, a strained cupped Icelandic yogurt; Plantiful, a plant-based probiotic beverage made from organic and non-GMO pea protein with 10 vegan kefir cultures; a line of probiotic supplements for adults and children; and a soft serve kefir mix.

Our product categories are:

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

Net sales of products by category were as follows for the years ended December 31:

In thousands	2019 $		2019 %	2018 $		2018 %
Drinkable Kefir other than ProBugs	$	71,822	77%	$	78,523	76%
Cheese		11,459	12%		11,486	11%
Cream and other		4,228	4%		5,276	5%
ProBugs Kefir		2,780	3%		2,795	3%
Other dairy		1,756	2%		3,836	4%
Frozen Kefir (a)		1,617	2%		1,434	1%
Net Sales	$	93,662	100%	$	103,350	100%

(a) Includes Lifeway Kefir Shop sales

Product innovation and new product development

Lifeway is committed to maintaining its positions as the leading producer of kefir and a recognized leader in the market for probiotic products. We routinely evaluate opportunities for new product flavors and formulations, improved package design, new product configurations and other innovation opportunities. Beyond our core drinkable kefir products, we have an ongoing effort to extend the strength of the Lifeway brand and leverage the capabilities of the Lifeway organization into categories both inside and outside of the dairy aisle, including into non-food categories and into additional channels, such as gyms and fitness studios. In 2019, we maintained the level of focus on product innovations, packaging innovations, and growth opportunities. As noted above, these product innovation and development efforts have led to additional revenue opportunities from Plantiful and Kefir minis. New items introduced or expanded through our innovation efforts were offset by lower volumes of our core drinkable kefir products in 2019.

Lifeway considers research and development of new products to be a significant part of our overall business philosophy. Where possible, we leverage our existing staff and facilities to conduct our innovation, research, and development efforts, rather than maintaining a dedicated research and development staff and facilities or relying solely on third parties. In 2020, in light of the Covid-19 outbreak, and our focus on expanding sales of our current products, we don’t expect to focus on new product development.

PRODUCTION

Manufacturing

During 2019 and 2018, approximately 99% and 98%, respectively of our revenue was derived from products manufactured at our own facilities. We currently operate the following manufacturing and distribution facilities:

- Morton Grove, Illinois, which produces drinkable kefir, drinkable ProBugs kefir, Kefir Cups, and cheese products;
- Waukesha, Wisconsin, which produces drinkable kefir products and from which we store and distribute products;
- Niles, Illinois, which stores and serves as a distribution point for products, including those manufactured by co-packers;
- Philadelphia, Pennsylvania, which produces drinkable kefir, cheese, and butter products, from which we store and distribute products.

We own these manufacturing facilities, and all our fixed assets associated with manufacturing, storage, and distribution of our products are located in the United States.

Co-Packers

In addition to the products manufactured in our own facilities, independent manufacturers ("co-packers") manufacture some of our products. We have co-packer agreements to manufacture drinkable kefir in European markets our frozen kefir products, and our probiotic supplements. During 2019 and 2018, approximately 1% of our revenue was derived from products manufactured by co-packers. Our co-packers are audited regularly by our staff and are required to follow our specifications and Good Manufacturing Practices (GMPs). Additionally, the co-packers are required to ensure our products are manufactured in accordance with our quality and safety specifications and that they are compliant with all applicable laws and regulations.

SALES AND DISTRIBUTION

Sales Organization

We sell our products primarily through our direct sales force, brokers, and distributors. Our sales organization strives to cultivate strong, collaborative relationships with our customers that facilitate favorable shelf placement for our products, which we believe will drive sales volumes when combined with our marketing efforts and our brand strength. Our relationships with food brokers provide additional retail customer coverage as a supplement to our direct sales force.

Distribution inside the United States

Lifeway's products reach the consumer through four primary "route-to-market" pathways:

- Retail-direct;
- Distributor;
- Direct store delivery ("DSD");
- Retail sales.

Under the retail-direct channel, we sell our products to the retailer that either the retailer's carrier picks up or Lifeway ships through third party carriers for delivery to those retailers' distribution centers. In turn, our retailers then deliver the products to their respective stores. Customers in this route-to-market grouping include Kroger, Walmart and Trader Joe's. Under the retail direct model, optimal product merchandising, assortments and product presentation are attended to by the retailer with limited support from Lifeway's broker network. Sales to our retail-direct customers represent approximately 43% of our total net sales for the year ended 2019.

Under the distributor channel, we sell our products to distributors that either the distributor's carrier picks up or Lifeway ships through third party carriers for delivery to those distributors' designated warehouses. In turn, our distributors then sell and ship our products to their retail customers. Our distributors often use a DSD model of their own to make deliveries directly to individual stores, but they also make deliveries to retailers' distribution centers. Our distributor customers include United Natural Foods (UNFI), KeHE Distributors, and C&S Wholesale Grocers. The distributor attends to optimal product merchandising, assortments, and product presentations at the retail end of the channel, with support from Lifeway's direct sales force and broker network. Sales to our distributor customers represent approximately 52% of our total net sales for year ended 2019.

Under the direct store delivery (DSD) route to market, we distribute our products directly to the retailer using a fleet of Company-owned vehicles and a team of Lifeway merchandisers who engage face-to-face with store management to ensure optimal product assortments and presentations. We operate our DSD model in the Chicago, Illinois metropolitan area only. Sales to our DSD customers represent approximately 3% of our total net sales for the year ended 2019.

In the Chicago, Illinois metropolitan area, Lifeway operates three retail stores and a food truck under its Lifeway Kefir Shop subsidiary. The Lifeway Kefir Shop sells its frozen and drinkable kefir products, as well as certain Lifeway products, through these retail outlets. Sales through these retail outlets represent approximately 1% of net sales for the year ended 2019.

***Distribution outside of the U.S*.**

Substantially all of Lifeway's products are distributed within the United States; however, certain of our distributors sell our products to retailers in Mexico and portions of South America and the Caribbean. Additionally, Lifeway products reach consumers in the United Kingdom, Ireland, Norway, Sweden, and the Middle East under third party co-manufacturing agreements and in-country broker and distributor arrangements. Sales outside the United States represents approximately 1% of net sales for the year ended 2019.

Channel- and Market-Specific Distribution and Broker Representation Arrangements

Lifeway's generally standardized agreements with independent distributors and food brokers allow us the latitude to establish new relationships as the opportunities and needs arise. Where appropriate given the relationship, market, and business opportunity, we offer exclusive channels, markets, and/or territories to our distributors and brokers.

We provide our independent distributors with products at wholesale prices for distribution to their retail accounts. Lifeway believes that the prices at which we sell our products to distributors are competitive with the prices generally paid by distributors for similar products in the markets served. Due to the perishable nature of our products and the costs associated with moving product back through the channel, we do not offer return privileges to any of our distributors or channel customers; however, from time to time we do provide our customers with allowances for non-saleable product.

Lifeway engages independent food brokers generally on a commission basis, subject in some cases to a minimum commission guarantee. The commissions vary based on the scope of services provided and customers served. Our brokers represent our products to a variety of prospective buyers. These buyers could be specialty stores, retail grocery chains, wholesalers, foodservice operators and distributors, drug chains, mass merchandisers, industrial users, schools and universities, or military installations. With support from our direct sales force, brokers may provide other value-added services. These may include scheduling and coordinating promotions, merchandising, centralized ordering, and data collection services.

MARKETING

We use a combination of sales incentives, trade promotions, and consumer promotions to market our products.

Sales Incentives and Trade Promotion Allowances

Lifeway offers various sales incentives and trade promotional programs to its retailer and distributor customers from time to time in the normal course of business. These sales incentives and trade promotion programs typically include rebates, in-store display and demo allowances, allowances for non-saleable product, coupons, and other trade promotional activities. Trade promotions support price features, displays, and other merchandising of our products by our retail and distributor customers. We record these arrangements as a reduction to net sales in our consolidated statements of operations.

Consumer Promotions and Marketing Campaigns

We engage in an ongoing and wide variety of marketing and media campaigns - primarily digital and social media, print advertising in some newspapers and magazines, and, to a lesser extent, targeted television advertising. We complement these marketing and media efforts by sponsoring cultural and community events, and various festivals, as well as participating in industry-related trade shows and in-store promotional events. Our consumer marketing efforts also include cooperative advertising programs with our retail customers and various couponing campaigns, online consumer relationship programs, and other similar forms of promotions.

Our marketing efforts are aimed at stimulating demand with new and existing consumers by elevating awareness and consumption of kefir and probiotics, as well as enhancing our brand equity. Our awareness marketing seeks to promote the verifiable nutritional profile, purity, benefits, and good taste of our kefir.

COMPETITION

Lifeway competes with a limited number of other domestic kefir producers and consequently faces a small amount of direct competition for kefir products. However, Lifeway's kefir-based products compete with other dairy products, notably spoonable and drinkable yogurt, and, increasingly, with non-dairy probiotic products that incorporate kefir cultures but are not kefir. Many of our competitors are well-established and have significantly greater financial resources than Lifeway to promote their products.

SUPPLIERS

We purchase our ingredients such as raw milk, pectin, and fruit purees from unaffiliated suppliers. In addition, we purchase significant quantities of packaging materials to package our products and natural gas and electricity to operate our facilities. Purchases are made through purchase orders or contracts, and price, delivery terms, and product specifications vary. Although the prices for our principal inputs can fluctuate based on economic, weather, and other conditions, Lifeway believes it has ready access to multiple suppliers for all ingredient, packaging, and other input requirements.

MAJOR CUSTOMERS

During the year ended December 31, 2019, two customers, United Natural Foods, Inc. (UNFI) and one other customer, collectively accounted for approximately 22% of our total net sales. These customers collectively accounted for approximately 17% of net accounts receivable as of December 31, 2019.

SEGMENTS

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

DANONE SA

Since October 1999, Danone SA, through subsidiaries (collectively "Danone"), has been the beneficial owner of approximately 22% of the outstanding common stock of Lifeway. Lifeway and Danone are parties to a Stockholders' Agreement dated October 1, 1999, which as amended provides Danone the right to designate one director nominee, provides Danone with anti-dilutive rights relating to certain future offerings and issuances of capital stock, and grants Danone limited registration rights.

INTELLECTUAL PROPERTY

We believe that our rights in our trademarks and service marks are important to our marketing efforts to develop brand recognition and differentiate our brand from our competitors and are a valuable part of our business. We own many domestic and international trademarks and service marks. In addition, we own numerous registered and unregistered copyrights, registered domain names, and proprietary trade secrets, trade dress, technology, know-how, processes, and other proprietary rights that are not registered. Depending on the jurisdiction, trademarks are generally valid as long as they are in use and/or their registrations are properly maintained and they have not been found to have become generic. Registrations of trademarks can also generally be renewed indefinitely as long as the trademarks are in use. We also have licenses to use certain trademarks inside and outside of the United States and to certain product formulas, all subject to the terms of the agreements under which such licenses are granted. Lifeway's policy is to pursue registration of intellectual property whenever appropriate. We protect our intellectual property rights by relying on a combination of trademark, copyright, trade dress, trade secret and other intellectual property laws, and domain name dispute resolution systems; as well as licensing agreements, third-party confidentiality, nondisclosure, and assignment agreements; and by policing third-party misuses of our intellectual property. We regard the Lifeway family of trademarks and other intellectual property as having substantial value and as being an important factor in the marketing of our products. The loss of such protection would have a material adverse impact on our operations and share price.

REGULATION

Lifeway is subject to extensive regulation by federal, state, and local governmental authorities. In the United States, agencies governing the manufacture, marketing, and distribution of our products include, among others, the Federal Trade Commission ("FTC"), the United States Food & Drug Administration ("FDA"), the United States Department of Agriculture ("USDA"), the United States Environmental Protection Agency ("EPA"), the Occupational Safety and Health Administration ("OSHA"), and their state and local equivalents. Under various statutes, these agencies prescribe, among other things, the requirements and standards for quality, safety, and representation of our products to consumers. We are also subject to federal laws and regulations relating to our products and production. For example, as required by the National Organic Program ("NOP"), we rely on third parties to certify certain of our products and production locations as organic. Additionally, our facilities are subject to various laws and regulations regarding the release of material into the environment and the protection of the environment in other ways.

Internationally, we are subject to the laws and regulatory authorities of the foreign jurisdictions in which we manufacture and sell our products, including the Food Standards Agency in the United Kingdom; the National Service of Health, Food Safety and Agro-Food Quality (known by its Spanish-language acronym "SENASICA") and the Federal Commission for the Protection from Sanitary Risks ("COFEPRIS") in Mexico; the Food Safety Authority in Ireland; and the European Food Safety Authority, which supports the European Commission, as well as individual country, province, state, and local regulations.

MILK INDUSTRY REGULATION

Our primary raw material is conventional and organic raw milk. Raw milk primarily contains raw skim milk, in addition to a small percentage of butterfat and other components. The federal government establishes minimum prices for raw milk purchased in federally regulated areas. Some states have established their own rules for determining minimum prices. The federal government announces prices for raw milk each month. While we are subject to federal government regulations that establish minimum prices for milk, the prices we pay producers of organic raw milk are generally well above such minimum prices, as organic milk production is generally costlier, and organic milk therefore commands a price premium. In addition to the prices for raw milk, we also pay producer ("over-order") premiums, federal order administration costs, and other related charges that vary by milk product, location, and supplier.

FOOD SAFETY

Lifeway takes appropriate precautions to ensure the safety of our products. In addition to routine inspections by state and federal regulatory agencies, including the USDA and FDA, we have instituted Company-wide quality systems that address topics such as supplier control; ingredient, packaging, and product specifications; preventive maintenance; pest control; and sanitation. Each of our facilities also has in place a hazard analysis critical control points ("HACCP") plan that identifies critical pathways for contaminants and mandates control measures that must be used to prevent, eliminate or reduce relevant food-borne hazards. To the extent that the federal Food Safety Modernization Act applies to Lifeway's business, we develop food safety plans and implement preventive measures to protect against food contamination. We also maintain a product recall plan, including lot identifiability and traceability measures that allow us to act quickly to reduce the risk of consumption of any product that we suspect may pose a health issue.

We maintain various types of insurance, including product liability coverage, which we believe to be sufficient to cover potential product liabilities.

We have also implemented the Safe Quality Food ("SQF") program at all of our facilities. SQF is a fully integrated food safety and quality management protocol designed specifically for the food sector. The SQF Code, based on universally accepted CODEX Alimentarius, HACCP guidelines and the Global Food Safety Initiative ("GFSI") standards, offers a comprehensive methodology to manage food safety and quality simultaneously. Safe Quality Food or SQF certification provides an independent and external validation that a product, process or service complies with international, regulatory and other specified standards. Our Waukesha and Morton Grove facilities are SQF certified at the highest level of such certification.

SEASONALITY

Lifeway's business is not seasonal.

EMPLOYEES

As of December 31, 2019, we employed approximately 307 employees, approximately 101 of which were members of a union bargaining unit.

AVAILABLE INFORMATION

Lifeway maintains a corporate website for investors at www.lifewayfoods.com and it makes available, free of charge, through this website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports that we file with or furnish to the SEC as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

ITEM 1A RISK FACTORS

In evaluating and understanding us and our business, you should carefully consider the risks described below, in conjunction with all of the other information included in this Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Part II, Item 7 and "Quantitative and Qualitative Disclosures About Market Risk" contained in Part II, Item 7A. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may become important factors that adversely affect our business. If any of the events or circumstances described in the following risk factors actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected.

Our product categories face a high level of competition, which could negatively impact our sales and results of operations.

We face significant competition for limited retailer shelf space in each of our product categories. Competition in our product categories is based on product innovation, product quality, price, brand recognition and loyalty, effectiveness of marketing, promotional activity, and our ability to identify and satisfy consumer tastes and preferences. We believe that our brands have benefited in many cases from being the first to introduce products in their categories, and their success has attracted competition from other food and beverage companies that produce branded products, as well as from private label competitors. Some of our competitors, such as Danone, General Mills, Chobani, Hain Celestial Group, and Nestle, have substantial financial and marketing resources. These competitors and others may be able to introduce innovative products more quickly or market their products more successfully than we can, which could cause our growth rate to be slower than we anticipate and could cause sales to decline.

We also compete with producers of non-dairy products, such as Millennium Products and PepsiCo, that have lower ingredient and production-related costs. As a result, these competing producers may be able to offer their products to customers at a lower price point. This could cause us to lower our prices, resulting in lower profitability or, in the alternative, cause us to lose market share if we fail to lower prices. Furthermore, private label competitors are generally able to sell their products at lower prices because private label products typically have lower marketing costs than their branded counterparts. If our products fail to compete successfully with other branded or private label offerings, demand for our products and our sales volumes could be negatively impacted.

Additionally, due to high levels of competition, certain of our key retailers may demand price concessions on our products or may become more resistant to price increases for our products. Increased price competition and resistance to price increases have had, and may continue to have, a negative effect on our results of operations.

We may not be able to successfully implement our business strategy for our brands on a timely basis or at all.

We believe that our future success depends, in part, on our ability to implement our strategy of leveraging our existing brands with our current and new products to maintain our market position in our product categories; drive increased sales; acquire or establish new brands; and create strategic alliances including potential joint ventures. Our ability to implement this strategy depends, among other things, on our ability to:

- enter into distribution and other strategic arrangements with third-party retailers and other potential distributors of our products;
- compete successfully in the product categories in which we choose to operate;
- introduce timely, new, cost-effective, and appealing products and innovate successfully within our existing product categories;
- develop and maintain consumer interest in and demand for our brands considering prevailing consumer tastes and preferences;
- increase our brand recognition and loyalty;
- enter into strategic arrangements with third-party suppliers to obtain necessary raw materials;
- identify suitable acquisition candidates or joint venture partners and accurately assess their value, growth potential, strengths, weaknesses, contingent and other liabilities, and potential profitability;
- negotiate acquisitions and joint ventures on terms acceptable to us; and

- integrate acquired brands, products, or joint ventures into our company and our business strategy.

If we fail to execute these and other important elements of our business strategy, our business and results of operations could be adversely affected.

One key element of our business strategy is to introduce timely, new, cost-effective, and appealing products and to innovate successfully within our existing product categories. New items introduced through our innovation efforts partially offset lower volumes in 2019 of our core drinkable kefir products. However, consumer tastes and preferences change rapidly, and evolve over time. Factors that may affect consumer tastes and preferences include:

- dietary trends and increased attention to nutritional values, such as the sugar, fat, protein, fiber or calorie content of different foods and beverages;
- concerns regarding the health effects of specific ingredients and nutrients, such as sugar, other sweeteners, dairy, soybeans, nuts, oils, vitamins, fiber and minerals;
- concerns regarding the public health consequences associated with obesity, particularly among young people;
- decisions by yogurt and non-dairy beverage manufacturers to mislabel their products as “kefir” in order to benefit from our branding and marketing efforts, a marketing ploy that can cause significant confusion and misunderstanding among consumers; and
- increased awareness of the environmental and social effects of food processing.

Our future investments may not produce the results we expect when we expect them for a variety of reasons including those described herein. Our future product development and innovation will be reliant on our ability to identify and develop potential new growth opportunities. This process is inherently risky and will result in investments in substantial time and resources for which we do not achieve any return or value. Successful product development and innovation is also affected by our ability to launch new or improved products successfully and on a timely and cost-effective basis.

We may have to pay cash, incur debt, or issue equity, equity-linked, or debt securities to fund our business strategy, or may be unable to fund that strategy. Any of these events could adversely affect our financial results and our business. We could experience similar effects if we invest resources in a strategy that ultimately proves unsuccessful. If, due to a failure of our strategy or any other reason, consumer demand for our products declines, our sales volumes, results of operations, and our business could be negatively affected, and we may not be able to create or sustain growth or successfully implement our business strategy.

The consolidation of our customers or the loss of any of our largest customers could negatively impact our sales and results of operations.

Customers, such as supermarkets and food distributors, continue to consolidate. This consolidation has produced larger, more sophisticated organizations with increased negotiating and buying power that are able to resist price increases or demand increased promotional programs, as well as operate with lower inventories, decrease the number of brands that they carry and increase their emphasis on private label products, all of which could negatively impact our business. The consolidation of retail customers also increases the risk that a significant adverse impact on their business could have a corresponding material adverse impact on our business.

Two of our customers together accounted for 22% of our net sales in the fiscal year ended December 31, 2019. Where we enter into written agreements with our customers, they are generally terminable after short notice periods by the customer. In addition, our customers sometimes award contracts based on competitive bidding, which could result in lower profits for contracts we win and the loss of business for contracts we lose. The loss of any large customer, the reduction of purchasing levels, or the cancellation of any business from a large customer for an extended period of time could negatively affect our sales and results of operations.

We rely on sales made by or through our independent distributors to customers. Distributors purchase directly for their own account for resale. The loss of, or business disruption at, one or more of these distributors may harm our business. If we are required to obtain additional or alternative distribution agreements or arrangements in the future, we cannot be certain that we will be able to do so on satisfactory terms or in a timely manner. Our inability to enter into satisfactory distribution agreements may inhibit our ability to implement our business plan or to establish markets necessary to expand the distribution of our products successfully.

We are subject to the risk of product contamination and product liability claims, which could harm our reputation, force us to recall products and incur substantial costs.

The sale of food products for human consumption involves the risk of injury to consumers. Such injuries may result from tampering by unauthorized third parties, inadvertent mislabeling, product contamination or spoilage including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the storage, processing, handling or transportation phases. We also may be subject to liability if our products or production processes violate applicable laws or regulations, including environmental, health, and safety requirements, or in the event our products cause injury, illness, or death.

Under certain circumstances, we may be required to recall or withdraw products, suspend production of our products, or cease operations, which may lead to a material adverse effect on our business. In addition, customers may cancel orders for such products as a result of such events. Even if a situation does not necessitate a recall or market withdrawal, and even if we and each of our co-packers and suppliers comply in all material respects with all applicable laws and regulations, we may become subject to claims or lawsuits relating to such matters. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or physical harm, including the risk of reputational harm being magnified and/or distorted through the rapid dissemination of information over the Internet, including through news articles, blogs, chat rooms, and social media, could adversely affect our reputation with existing and potential customers and consumers and our corporate and brand image. Moreover, claims or liabilities of this type might not be covered by our insurance or by any rights of indemnity or contribution that we may have against others. We maintain product liability insurance in an amount that we believe to be adequate. However, we cannot be sure that we will not incur claims or liabilities for which we are not insured or that exceed the amount of our insurance coverage. A product liability judgment against us or a product recall could have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

We rely on independent certification for several of our products and facilities.

We rely on independent certification, such as certifications of our products as “organic”, or “gluten-free,” to differentiate our products from others. The loss of any independent certifications could adversely affect our market position as a probiotic-based products and natural, “better for you” foods company, which could harm our business. We rely on independent SQF certification at some of our facilities, a certification that some of our customers require us to maintain.

We must comply with the requirements of independent organizations or certification authorities in order to label our products as certified. For example, we can lose our “organic” certification if a manufacturing plant becomes contaminated with non-organic materials, or if it is not properly cleaned after a production run. In addition, all organic raw materials must be certified organic. Our products could lose their organic certifications if our raw material suppliers lose their organic certifications. Similarly, we could lose our SQF certification if we do not meet the requirements of the SQF Code. The loss of these certifications could cause us to lose customers that require Lifeway products and/or facilities to carry some or all of them, which could negatively affect our sales and results of operations.

Increases in the cost of raw milk could reduce our gross margin and profit.

Conventional and organic raw milk, our primary raw material, is an agricultural commodity that is subject to price fluctuations. Although both conventional and organic milk prices in fiscal 2019 were relatively consistent with the prior year, there can be no assurance that such prices will remain at these levels in the future. The supply and price of raw milk may be impacted by, among other things, weather, natural disasters, real or perceived supply shortages, lower dairy and crop yields, general increases in farm inputs and costs of production, political and economic conditions, labor actions, government actions, and trade barriers. Increases in the market price for raw milk or over-order premiums charged by producers may also impact our ability to enter into purchase commitments at a fixed price. There can be no assurance that our purchasing practices will mitigate future price risk. As a result, increases in the cost of raw milk could have an adverse impact on our profitability.

In addition, the dairy industry continues to experience periodic imbalances between supply and demand for organic raw milk. Industry regulation and the costs of organic farming compared to costs of conventional farming can impact the supply of organic raw milk in the market. Oversupply levels of organic raw milk can increase competitive pressure on our products and pricing, while supply shortages can cause higher input costs and reduce our ability to deliver product to our customers. Cost increases in raw materials and other inputs could cause our profits to decrease significantly compared to prior periods, as we may be unable to increase our prices to offset the increased cost of these raw materials and other inputs. If we are unable to obtain raw materials and other inputs for our products or offset any increased costs for such raw materials and inputs, our business could be negatively affected.

Reduced availability of raw materials and other inputs, as well as increased costs for them, could adversely affect us.

Our business depends heavily on raw materials and other inputs in addition to conventional and organic raw milk, such as sweeteners, diesel fuel, packaging material, resin, and other commodities. Our raw materials are generally sourced from third-party suppliers, and we are not assured of continued supply, pricing, or exclusive access to raw materials from any of these suppliers. In addition, some of our raw materials are also agricultural products, and therefore subject to the same vulnerabilities described above for raw milk. Other events that adversely affect our third-party suppliers and that are out of our control could also impair our ability to obtain the raw materials and other inputs that we need in the quantities and at the prices that we desire. Such events include problems with our suppliers’ businesses, finances, labor relations, costs, production, insurance, and reputation.

The organic ingredients we use in some of our products are less plentiful and available from a fewer number of suppliers than their conventional counterparts. Competition with other manufacturers in the procurement of organic product ingredients may increase in the future if consumer demand for organic products increases.

Interruption of our supply chain could affect our ability to manufacture or distribute products, could adversely affect our business and sales, and/or could increase our operating costs and capital expenditures.

We have several supply agreements with suppliers and co-packers that require them to provide us with specific finished goods, including packaging, kefir, and probiotic supplements. For some of these products, we essentially rely on a single supplier or co-packer as our sole source for the item. The failure for any reason of any such sole source or other co-packer to fulfill its obligations under the applicable agreements with us or the termination or renegotiation of any such sourcing agreement could result in disruptions to our supply of finished goods and have an adverse effect on our results of operations. Additionally, our suppliers and co-packers are subject to risk, including labor disputes, union organizing activities, financial liquidity, inclement weather, natural disasters, supply constraints, and general economic and political conditions that could limit their ability to timely provide us with acceptable products, which could disrupt our supply of finished goods, or require that we incur additional expense by providing financial accommodations to the supplier or co-packer or taking other steps to seek to minimize or avoid supply disruption, such as establishing new arrangements with other providers. A new arrangement may not be available on terms as favorable to us as our existing arrangements, if at all.

Our inability to maintain sufficient internal capacity or establish satisfactory co-packing, warehousing and distribution arrangements could limit our ability to operate our business or implement our strategic plan, and could negatively affect our sales volumes and results of operations.

Disruption of our manufacturing or distribution chains or information technology systems, including disruption due to cybersecurity threats, could adversely affect our business.

The success of our business depends, in part, on maintaining a strong production platform and we rely primarily on internal production resources to fulfill our manufacturing needs. Our ongoing initiatives to expand our production platform and our productive capacity could fail to achieve such objectives and in any case could increase our operating costs beyond our expectations and could require significant additional capital expenditures. If we cannot maintain sufficient production, warehousing, and distribution capacity, either internally or through third party agreements, we may be unable to meet customer demand and/or our manufacturing, distribution, and warehousing costs may increase, which could negatively affect our business.

Furthermore, damage or disruption to our manufacturing or distribution capabilities due to weather, natural disaster, fire, environmental incident, terrorism, cybersecurity threats and other security breaches, pandemic, strikes, the financial or operational instability of key distributors, warehousing, and transportation providers, or other reasons could impair our ability to manufacture or distribute our products.

We rely on a limited number of production and distribution facilities. A disruption in operations at any of these facilities or any other disruption in our supply chain relating to common carriers, supply of raw materials and finished goods, or otherwise, whether as a result of casualty, natural disaster, power loss, telecommunications failure, cybersecurity threat, terrorism, labor shortages, contractual disputes or other causes, could significantly impair our ability to operate our business and adversely affect our relationship with our customers. Furthermore, our insurance coverage may not be adequate to cover all related costs.

Our information technology systems are also critical to the operation of our business and essential to our ability to successfully perform day-to-day operations. These systems include, without limitation, networks, applications, and outsourced services in connection with the operation of our business. A failure of our information technology systems to perform as we anticipate could disrupt our business and result in transaction errors, processing inefficiencies, and sales losses, causing our business to suffer. In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, and cybersecurity threats. Cybersecurity threats in particular are persistent, evolve quickly and include, without limitation, computer viruses, unauthorized attempts to access information, denial of service attacks, and other electronic security breaches. Like our customers, suppliers, subcontractors and other third parties with whom we do business generally, we expect that we will continue to be the subject of cybersecurity threats. In some cases we must rely on the safeguards put in place by the third parties with whom we do business to protect against security threats. We believe we have implemented appropriate measures and controls and have invested in sufficient resources to appropriately identify and monitor these threats and mitigate potential risks, including risks involving our customers and suppliers. However, there can be no assurance that any such actions will be sufficient to prevent cybersecurity breaches, disruptions to mission critical systems, the unauthorized release of sensitive information or corruption of data, or harm to facilities or personnel.

These threats and other events could disrupt our operations, or the operations of our customers, suppliers, subcontractors and other third parties; could require significant management attention and resources; could result in the loss of business, regulatory actions and potential liability; and could negatively impact our reputation among our customers and the public. Any of these outcomes could have a negative impact on our financial condition, results of operations, or liquidity.

Our debt and financial obligations could adversely affect our financial condition, our ability to obtain future financing, and our ability to operate our business.

We have outstanding debt obligations that could adversely affect our financial condition and limit our ability to successfully implement our business strategy. Furthermore, from time to time, we may need additional financing to support our business and pursue our business strategy, including strategic acquisitions. Our ability to obtain additional financing, if and when required, will depend on investor demand, our operating performance, the condition of the capital markets, and other factors. We cannot assure that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked, or debt securities, those securities may have rights, preferences, or privileges senior to those of our common stock, and, in the case of equity and equity-linked securities, our existing stockholders may experience dilution.

As of December 31, 2019, we had outstanding borrowings of approximately $2,745, net of $32 of unamortized deferred financing costs, which consisted of a revolving line of credit. Our loan agreements contain certain restrictions and requirements that among other things:

- require us to maintain a minimum year-to-date EBITDA in fiscal year 2019, and a quarterly fixed charge coverage ratio;
- limit our ability to obtain additional financing in the future for working capital, capital expenditures and acquisitions, to fund growth or for general corporate purposes;
- limit our future ability to refinance our indebtedness on terms acceptable to us or at all;
- limit our flexibility in planning for or reacting to changes in our business and market conditions or in funding our strategic growth plan; and
- impose on us financial and operational restrictions.

Our ability to meet our debt service obligations will depend on our future performance, which will be affected by the other risk factors described in this Annual Report on Form 10-K. If we do not generate enough cash flow to pay our debt service obligations, we may be required to refinance all or part of our existing debt, sell our assets, borrow more money or raise equity. There is no guarantee that we will be able to take any of these actions on a timely basis, on terms satisfactory to us, or at all.

Our notes bear interest at variable rates. If market interest rates increase, it will increase our debt service requirements, which could adversely affect our cash flow.

Our loan agreements also contain provisions that restrict our ability to:

- borrow money or guarantee debt;
- create liens;
- make specified types of investments and acquisitions;
- pay dividends on or redeem or repurchase stock;
- enter into new lines of business;
- enter into transactions with affiliates; and

- sell assets or merge with other companies.

These restrictions on the operation of our business could harm our ability to execute on our business strategy by, among other things, limiting our ability to take advantage of financing, merger and acquisition opportunities, and other corporate opportunities. Various risks, uncertainties, and events beyond our control could affect our ability to comply with these covenants. Unless cured or waived, a default would permit lenders to accelerate the maturity of the debt under the credit agreement and to foreclose upon the collateral securing the debt.

Loss of our key management or other personnel, or an inability to attract such management and other personnel, could negatively impact our business.

We depend on the skills, working relationships, and continued services of key personnel, including our experienced senior management team. We also depend on our ability to attract and retain qualified personnel to operate and expand our business. If we lose one or more members of our senior management team, or if we fail to attract talented new employees, our business and results of operations could be negatively affected.

Employee strikes and other labor-related disruptions may adversely affect our operations.

We have a union contract governing the terms and conditions of employment for a significant portion of our workforce. Although we believe union relations since the union's certification as the exclusive bargaining representative of this portion of our workforce have been amicable, there is no assurance that this will continue in the future or that we will not be subject to future union organizing activity. There are potential adverse effects of labor disputes with our own employees or by others who provide warehousing, transportation, and distribution, both domestic and foreign, of our raw materials or other products. Strikes or work stoppages or other business interruptions could occur if we are unable to renew collective bargaining agreements on satisfactory terms or enter into new agreements on satisfactory terms, which could impair manufacturing and distribution of our products or result in a loss of sales, which could adversely impact our business, financial condition, or results of operations. The terms and conditions of existing, renegotiated, or new collective bargaining agreements could also increase our costs or otherwise affect our ability to fully implement future operational changes to enhance our efficiency or to adapt to changing business needs or strategy.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products and brands.

We consider our intellectual property rights, particularly our trademarks, but also our copyrights, registered domain names, and proprietary trade secrets, technology, know-how, processes and other proprietary rights to be a significant and valuable aspect of our business. We attempt to protect our intellectual property rights by relying on a combination of trademark, copyright, trade dress, trade secret, and other intellectual property laws, and domain name dispute resolution systems; as well as licensing agreements, third-party confidentiality, nondisclosure, and assignment agreements; and by policing third-party misuses of our intellectual property. Our failure to obtain or maintain adequate protection of our intellectual property rights, or any change in law or other changes that serve to lessen or remove the current legal protections of our intellectual property, may diminish our competitiveness and could materially harm our business.

We also face the risk of claims that we have infringed third parties' intellectual property rights. Any claims of intellectual property infringement, even those without merit, could be expensive and time consuming to defend, cause us to cease making, licensing, or using products that incorporate the challenged intellectual property, require us to redesign or rebrand our products or packaging, divert management's attention and resources, or require us to enter into royalty or licensing agreements to obtain the right to use a third party's intellectual property. Any royalty or licensing agreements, if required, may not be available to us on acceptable terms or at all. Additionally, a successful claim of infringement against us could result in our being required to pay significant damages, enter into costly license or royalty agreements, or stop the sale of certain products, any of which could have a negative effect on our results of operations.

Litigation or legal proceedings could expose us to significant liabilities and have a negative impact on our reputation.

We are or may become party to various claims and legal proceedings in the ordinary course of our business. These claims and legal proceedings may include lawsuits or claims relating to contracts, intellectual property, product recalls, product liability, the marketing and labeling of products, employment matters, environmental matters, regulatory compliance, or other aspects of our business. Even when not merited, the defense of these claims and legal proceedings may divert our management's attention, and we may incur significant expenses in defending these claims and proceedings. In addition, we may be required to pay damage awards or settlements or become subject to injunctions or other equitable remedies, which could have a material adverse effect on our financial position, cash flows, or results of operations. The outcome of litigation is often difficult to predict, and the outcome of pending or future claims and legal proceedings may have a material adverse effect on our financial position, cash flows, or results of operations. We evaluate these claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, we establish reserves or disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from our current assessments and estimates. If actual outcomes or losses differ materially from our current assessments and estimates or additional claims or legal proceedings are initiated, we could be exposed to significant liabilities.

Our business is subject to various food, environmental, and health and safety laws and regulations, which may increase our compliance costs, subject us to liabilities, or otherwise adversely affect our business.

Our business operations are subject to numerous requirements in the United States relating to food safety, production, and marketing, as well as the protection of the environment, and health and safety matters. The food production and marketing industry is subject to a variety of federal, state, local, and foreign laws and regulations, including food safety requirements related to the ingredients, manufacture, processing, storage, marketing, advertising, labeling, and distribution of our products, as well as those related to worker health and workplace safety. Our activities, both in and outside of the United States, are subject to extensive regulation. We are regulated by, among other federal and state authorities, the FDA, USDA, the U.S. Federal Trade Commission ("FTC"), and the U.S. Departments of Commerce, and Labor, as well as by similar authorities in the foreign countries in which we do business. Environmental laws including the Clean Air Act, the Clean Water Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, and the National Organic Standards of the U.S. Department of Agriculture, as well as similar state and local statutes and regulations in the United States and in each of the foreign countries in which we do business apply to our business operations as well. These laws and regulations govern, among other things, air emissions and the discharge of wastewater and other pollutants, the use of refrigerants, the handling and disposal of hazardous materials, and the cleanup of contamination in the environment.

In addition, the marketing and advertising of our products could make us the target of claims relating to alleged false or deceptive advertising under federal, state, and foreign laws and regulations, and we may be subject to initiatives that limit or prohibit the marketing and advertising of our products to children.

We are also subject to federal laws and regulations relating to our organic products and production. For example, as required by the National Organic Program ("NOP"), we rely on third parties to certify certain of our products and production locations as organic. Regulations and formal and informal positions taken by the NOP pursuant to the Organic Foods Production Act of 1990, which created the NOP, are subject to continued review and scrutiny.

Changes in these laws or regulations or the introduction of new laws or regulations could increase our compliance costs, increase other costs of doing business for us, our customers, or our suppliers, or restrict our actions, which could adversely affect our results of operations. In some cases, new laws and regulations or other federal and state regulatory initiatives could interrupt distribution of our products or force changes in our production processes and our products. Governmental regulations also affect taxes and levies, healthcare costs, energy usage, immigration, and other labor issues, all of which may have a direct or indirect effect on our business or those of our customers or suppliers. These costs could negatively affect our results of operations and financial condition. Further, if we are found to be in violation of applicable laws and regulations in these areas, we could be subject to civil remedies, including third-party claims for property damage or personal injury, fines, injunctions, recalls, clean up costs, and other civil sanctions, as well as potential criminal sanctions, any of which could have a material adverse effect on our business.

The Smolyansky family controls a majority of our common stock and has the ability to control the outcome of matters submitted for stockholder approval.

A majority of our common stock is controlled by members of the Smolyansky family, and collectively, they have the ability to control the outcome of stockholder votes, including the election of all of our directors and the approval or rejection of any merger, change of control, or other significant corporate transaction. No person interested in acquiring Lifeway will be able to do so without obtaining the consent of the Smolyansky family. We believe that having the Smolyansky family as a significant part of a long-term-focused, committed, and engaged stockholder base provides us with an important strategic advantage, particularly in a business with a mature, well-recognized brand. This advantage could be eroded or lost, however, should Smolyansky family members cease, collectively, to be controlling stockholders of Lifeway. We desire to remain independent and family-owned, and we believe the Smolyansky family shares these interests. However, the Smolyansky family's interests may not always be aligned with other stockholders' interests. By exercising their control, the Smolyansky family could cause Lifeway to take actions that are at odds with the investment goals of institutional, short-term, non-voting, or other non-controlling investors, or that have a negative effect on our stock price.

Because the Smolyansky family, collectively, controls a majority of our common stock (approximately 50.5%), we are considered a "controlled company" under Nasdaq Listing Rules. Controlled companies are exempt from Nasdaq listing standards that require a board composed of a majority of independent directors, a fully independent nominating/corporate governance committee, and a fully independent compensation committee. Our Board of Directors has determined that Lifeway will avail itself of these exemptions, though we currently maintain a Board composed of a majority of independent directors. In reliance on the controlled company exemptions described above, we have chosen to combine our audit, compensation, and nominating committees into an Audit and Corporate Governance Committee comprised of a majority of the Board's independent directors to eliminate unnecessary redundancies in our independent committee structure given the size of our Board. The Committee fulfills the Board's delegated audit, compensation, and nominating duties. As a result of our use of controlled company exemptions, our corporate governance practices differ from those of non-controlled companies, which are subject to all of the Nasdaq corporate governance requirements.

Our business and stock price may be adversely affected if we have other material weaknesses or significant deficiencies in our internal control over financial reporting.

Maintaining effective internal control over financial reporting is necessary for us to produce reliable financial statements. We have remediated the material weakness identified as of December 31, 2018 in our internal control over financial reporting related to our controls over the review of the step one goodwill impairment evaluation performed by third party valuation experts.

Should new material weaknesses arise or be discovered in the future, material misstatements could occur and go undetected in our interim or annual consolidated financial statements and we may be required to restate our financial statements. In addition, we may experience delays in satisfying our reporting obligations or to comply with SEC rules and regulations, which could result in investigations and sanctions by regulatory authorities. Any of these results could adversely affect our business and the value of our common stock.

Pandemics or disease outbreaks, such as the novel coronavirus (COVID-19 virus), may disrupt consumption and trade patterns, supply chains, and production processes, which could materially affect our operations and results of operations.

The impact that the recent COVID-19 outbreak will have on our consolidated results of operations is uncertain. While we have seen increased orders from retail customers in North America and Europe in March 2020 in response to increased consumer demand for food at home, near-term elevated retail customer orders may decrease in the coming months, and we are unable to predict the nature and timing of when that impact may occur, if at all. Restrictions on public gatherings or interactions may also limit the opportunity for our customers and consumers to purchase our products. If a significant percentage of our workforce or the workforce of our suppliers is unable to work, including because of illness or travel or government restrictions in connection with pandemics or disease outbreaks, our operations may be negatively impacted. In addition, pandemics or disease outbreaks could result in a widespread health crisis that could adversely affect the economies and financial markets, consumer spending and confidence levels resulting in an economic downturn that could affect customers' demand for our products. The recent outbreak of the coronavirus has recently become a pandemic, and neither the duration nor scope of the disruption can be predicted. Therefore, the financial impact cannot be reasonably estimated at this time.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

We operate the following facilities:

Location	Owned / Leased	Principal Use
Morton Grove, Illinois	Owned	Production of kefir and cheese, principal executive offices
Waukesha, Wisconsin	Owned	Production of kefir, administrative offices
Niles, Illinois	Owned	Distribution center, administrative offices
Philadelphia, Pennsylvania	Owned	Production of kefir and cheese, administrative offices
Chicago, Illinois	Leased	3 Retail stores
Chicago, Illinois	Leased	Administrative offices
New York, New York	Leased	Administrative offices

Lifeway believes that its facilities are adequate for its current needs and that suitable additional space will be available on commercially acceptable terms as required. We believe that we have adequate insurance coverage for all of our properties.

ITEM 3 LEGAL PROCEEDINGS

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

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the Nasdaq Global Market under the symbol "LWAY." Trading commenced on March 29, 1988. As of March 16, 2020, there were approximately 147 holders of record of Lifeway's Common Stock.

Common stock price

The following table shows the high and low sale prices per share of our common stock as reported on the Nasdaq Global Market for each quarter during the two most recent fiscal years:

	Common Stock Price Range 2018	
	Low	High
First Quarter	$ 5.99	$ 8.40
Second Quarter	$ 4.79	$ 6.48
Third Quarter	$ 2.66	$ 4.63
Fourth Quarter	$ 1.88	$ 3.39
	2019	
	Low	**High**
First Quarter	$ 1.98	$ 2.75
Second Quarter	$ 1.94	$ 4.00
Third Quarter	$ 2.19	$ 3.59
Fourth Quarter	$ 1.87	$ 2.44

Dividend Policy

Lifeway does not routinely declare and pay dividends. From time to time however our Board of Directors may declare and pay dividends depending on our operating cash flow, financial condition, capital requirements and such other factors as the Board of Directors may deem relevant.

There were no dividends declared or paid in fiscal 2019 or 2018.

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced program (a)	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs ($ in thousands)
1/1/2018 to 1/31/2018	106,441	$ 8.22	106,441	$ 5,007
2/1/2018 to 2/28/2018	24,486	$ 7.21	24,486	$ 4,830
4/1/2018 to 4/30/2018	15,433	$ 6.09	15,433	$ 4,736
6/1/2018 to 6/30/2018	4,143	$ 5.46	4,143	$ 4,714
8/1/2018 to 8/31/2018	1,332	$ 3.96	1,332	$ 4,709
9/1/2018 to 9/30/18	40,364	$ 3.35	40,364	$ 4,573
11/1/2018 to 11/30/18	17,228	$ 2.99	17,228	$ 4,522
12/1/2018 to 12/31/18	8,305	$ 2.25	8,305	$ 4,503
Fiscal Year 2018	**217,732**	**$ 6.33**	**217,732**	**$ 4,503**
1/1/2019 to 1/31/2019	46,743	$ 2.54	46,743	$ 4,384
2/1/2019 to 2/28/2019	9,100	$ 2.75	9,100	$ 4,358
3/1/2019 to 3/31/2019	26,932	$ 2.24	26,932	$ 4,298
4/1/2019 to 4/30/2019	4,300	$ 2.24	4,300	$ 4,288
5/1/2019 to 5/31/2019	57,817	$ 2.49	57,817	$ 4,145
6/1/2019 to 6/30/2019	11,146	$ 2.32	11,146	$ 4,119
8/1/2019 to 8/31/2019	37,567	$ 2.69	37,567	$ 4,018
9/1/2019 to 9/30/2019	17,531	$ 2.98	17,531	$ 3,965
Fiscal Year 2019	**211,136**	**$ 2.55**	**211,136**	**$ 3,965**

(a) During the fourth quarter of 2015, Lifeway publicly announced a share repurchase program. On November 1, 2017, the our Board of Directors amended the 2015 stock repurchase program (the "2017 amendment"), by adding to (i.e., exclusive of the shares previously authorized under the 2015 stock program repurchase) the authorization the lesser of $5,185 or 625 shares. The program has no expiration date.

ITEM 6 SELECTED FINANCIAL DATA

Not applicable

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations for the years ended December 31, 2019 and December 31, 2018 should be read in conjunction with the audited consolidated financial statements and the notes to those statements that are included elsewhere in this report on Form 10-K. In addition to historical information, the following discussion contains certain forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to our future plans, objectives, expectations and intentions. These statements may be identified by the use of words such as "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," "future," "predict," and "estimate," and similar terms or terminology, or the negative of such terms or other comparable terminology. Although we believe the expectations expressed in these forward-looking statements are based on reasonable assumptions within the bounds of our knowledge of our business, our actual results could differ materially from those discussed in these statements. Factors that could contribute to such differences include, but are not limited to, those discussed in the "Risk Factors" section in Part I, Item 1A. We undertake no obligation to update publicly any forward-looking statements for any reason even if new information becomes available or other events occur in the future.

Results of Operations

Comparison of Year Ended December 31, 2019 to Year Ended December 31, 2018 (in 000's)

	December 31,		Change	
	2019	**2018**	**$**	**%**
Net sales	**$ 93,662**	**$ 103,350**	**$ (9,688)**	**(9.4%)**
Cost of goods sold	$ 68,367	$ 74,646	$ 6,279	–
Depreciation expense	3,146	2,846	(300)	
Total cost of goods sold	$ 71,513	$ 77,492	$ 5,979	7.7%
Gross profit	**$ 22,149**	**$ 25,858**	**$ (3,709)**	**(14.3%)**
Gross Profit % to net sales	*23.6%*	*25.0%*		
Selling expenses	$ 11,062	$ 13,477	$ 2,415	17.9%
Selling expenses % to net sales	*11.8%*	*13.0%*		
General & administrative expenses	$ 12,828	$ 13,616	$ 788	5.8%
General & administrative % to net sales	*13.7%*	*13.2%*		
Goodwill and intangible asset impairment	–	1,244	1,244	100.0%
Amortization expense	$ 192	$ 631	$ 439	69.6%
Total operating expenses	**$ 24,082**	**$ 28,968**	**$ 4,886**	**16.9%**
Total operating expense % to net sales	*25.7%*	*28.0%*		
Loss from operations	**$ (1,933)**	**$ (3,110)**	**$ 1,177**	**(37.8%)**
Loss from operations % to net sales	*(2.1%)*	*(3.0%)*		

Net Sales

Net sales were $93,662 for the year ended December 31, 2019, a decrease of $9,688 or 9.4% versus prior year. The net sales softness continued to reflect the overall lower consumption in the dairy and cultured dairy product categories. Versus prior year, the decline was primarily driven by lower volumes of our branded drinkable kefir and cupped kefir and Skyr sales, partially offset by the incremental volume of new item introductions.

Gross Profit

Gross profit as a percentage of net sales decreased to 23.6% during the year ended December 31, 2019 from 25.0% during the same period in 2018. The lower gross profit percentage primarily reflects category sales softness, the unfavorable impact of operating leverage that arises from lower net sales relative to fixed costs, and increased freight costs and depreciation, partially offset by a reduction in variable costs.

Selling Expenses

Selling expenses decreased by $2,415 or 17.9% to $11,062 during the year ended December 31, 2019 from $13,477 during the same period in 2018. The decreased selling expenses primarily reflect the reduction in advertising and marketing programs with lower efficiency and compensation savings from organizational changes made in 2018. Selling expenses as a percentage of net sales were 11.8% during the year ended December 31, 2019 compared to 13.0% for the same period in 2018.

General and Administrative Expenses

General and administrative expenses decreased $788 or 5.8% to $12,828 during the year ended December 31, 2019 from $13,616 during the same period in 2018. The decrease is primarily a result of lower compensation expense due to organizational changes made in 2018, and lower professional fees, partially offset by increased legal expenses.

Goodwill and Intangible Asset Impairment

During the fourth quarter of fiscal 2018, we recorded a goodwill impairment charge of $1,244. See Note 5, Goodwill and Intangible Assets, in the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

Provision for Income Taxes

The provision for income taxes includes federal, state and local income taxes. Income tax expense was $782 during the year ended December 31, 2019, compared to a benefit for income taxes of $225 during the same period in 2018.

Our effective income tax rate (ETR) for the year ended December 31, 2019 was 63.3% compared to an ETR of 6.8% in the same period last year. The increase in the effective tax rate was primarily due to the separate state tax rates, non-deductible officer compensation expense, non-deductible compensation expense related to equity incentive awards, and the provision for unrecognized tax benefits. The increase in the effective tax rate from 2018 to 2019 is due to the fact that the company has a number of items that are nondeductible or are discrete adjustments to tax expense. Although similar items were reflected in 2018, the percentage effect is substantially different due to the difference in pre-tax income in 2019 compared to the pre-tax loss in 2018.

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

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

Net Income (Loss)

We reported a net income of $453 or $0.03 per basic and diluted common share for the year ended December 31, 2019 compared to a net loss of $(3,086) or $(0.19) per basic and diluted common share in the same period in 2018.

Liquidity and Capital Resources

We expect to meet our foreseeable liquidity and capital resource requirements through anticipated cash flows from operations; our revolving credit facility; and cash and cash equivalents to ensure the continuation of the Company as a going concern. The success of our business and financing strategies will continue to provide us with the financial flexibility to take advantage of various opportunities as they arise.

The impact that the recent COVID-19 outbreak will have on our consolidated results of operations is uncertain. Lifeway has seen increased orders from retail customers in North America and Europe in March 2020 in response to increased consumer demand for food at home in response to government mandated social distancing and shelter in place orders in the United States and the immune boosting quality of our products. However near-term elevated retail customer orders may decrease in the coming months, and we are unable to predict the nature and timing of when that impact may occur, if at all. As a result of the Covid-19 pandemic, restrictions on public gatherings or interactions, a decrease in available workforce at our facilities or our suppliers, adverse effects the economies and financial markets, consumer spending and confidence levels could affect customers' demand for our products or our ability to produce, transport and sell our products. Neither the duration nor scope of any disruption can be predicted. Therefore, the financial impact cannot be reasonably estimated at this time.

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

Sources and Uses of Cash

Lifeway had a net increase in cash and cash equivalents of $838 during the year ended December 31, 2019 compared to a net decrease in cash and cash equivalents of $1,980 in the same period in 2018. The drivers of the year over year change are as follows:

Net cash provided by operating activities was $3,811 during the year ended December 31, 2019 compared to net cash provided by operating activities of $2,417 in the same period in 2018. The increase in cash provided by operating activities is primarily due to the change in working capital and income tax refunds received in 2019.

Net cash used in investing activities was $838 during the year ended December 31, 2019 compared to net cash used in investing activities of $2,720 in the same period in 2018. The lower level of net cash used in investing activities in 2019 reflects lower capital spending. Capital spending was $1,178 during the year ended December 2019 compared to $2,824 in 2018. Our capital spending is focused in three core areas: growth, cost reduction, and facility improvements. Growth capital spending supports new product innovation and enhancements. Cost reduction spending supports manufacturing efficiency, safety and productivity. We received net proceeds of $474 related to the sale of our Skokie, IL facility during Q3 2019. During Q4 2019, the Company tendered approximately 45.6% of one of its investments recorded under the cost method on the consolidated balance sheets for cash proceeds of $1,509. See financing section below for use of those proceeds.

Net cash used in financing activities was $3,811 during the year ended December 31, 2019 compared to net cash used in financing activities of $1,677 in the same period in 2018. Under the terms of its line of credit agreement (see Note 7), we utilized proceeds from our federal and state income tax refunds to repay $1,330 on our revolving line of credit during the first quarter of 2019. We utilized the proceeds from the sale of our Skokie, IL facility to repay $459 on our revolving line of credit during the third quarter of 2019. We utilized proceeds from the sale of our investment described in the investing section above to make a mandatory prepayment of $1,484 on our revolving line of credit during the fourth quarter of 2019. On November 1, 2017, Lifeway's Board approved an increase in the aggregate amount under our previously announced 2015 stock repurchase program (the "2017 Repurchase Plan Amendment"), by adding to (i.e., exclusive of the shares previously authorized under the 2015 stock repurchase program) the authorization the lesser of $5,185 or 625 shares. We repurchased approximately 211 shares of common stock at a cost of $538 during the year ended December 31, 2019 under the 2017 Repurchase Plan Amendment. We repurchased approximately 218 shares of common stock at a cost of $1,379 during the year ended December 31, 2018 under the 2017 Repurchase Plan Amendment. We may execute transactions from time to time in the open market or by private negotiation, in accordance with all applicable securities laws and regulations. We intend to hold repurchased shares in treasury for general corporate purposes, including issuances under our 2015 Omnibus Incentive Plan. Treasury shares are accounted for using the cost method.

Revolving credit facility

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

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

All outstanding amounts under the Loans bear interest, based on a level of the Senior Debt to EBITDA ratio, at Lifeway's election, at either the lender Base Rate (the greater of either the Federal Funds Rate plus 0.0% to 0.5%, or the Prime Rate) or the LIBOR plus 2.25% to 3.00%, payable monthly in arrears. Lifeway is also required to pay a quarterly unused line fee of 0.25% and, in conjunction with the issuance of any letters of credit, a letter of credit fee.

As amended, the Modified Revolving Credit Facility contains customary representations, warranties, and covenants on the part of Lifeway, including financial covenants requiring us to achieve a minimum EBITDA threshold for each of the fiscal quarters through December 31, 2019, and maintain a fixed charge coverage ratio of no less than 1.25 to 1.0 each of the fiscal quarters ending through the expiration date. The Modified Revolving Credit Facility also provides for events of default, including failure to repay principal and interest when due and failure to perform or violation of the provisions or covenants of the agreement, as a result of which amounts due under the Modified Revolving Credit Facility may be accelerated. We were in compliance with the applicable covenants as of December 31, 2019.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements as defined in Item 303(a)(4) of Regulation S-K.

Contractual Obligations

Not applicable.

Critical Accounting Policies and Use of Estimates

Critical accounting policies are defined as those most important to the portrayal of a company's financial condition and results, and require the most difficult, subjective, or complex judgments. In many cases, the accounting treatment of a particular transaction is specifically dictated by US GAAP with no need for the application of our judgement. In certain circumstances, the preparation of our Consolidated Financial Statements in conformity with US GAAP requires us to use our judgment to make certain estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of net sales and expenses during the reporting period. We believe in the quality and reasonableness of our critical accounting estimates; however, materially different amounts might be reported under different conditions or using assumptions, estimates or making judgments different from those that we have applied. Management has discussed the development and selection of these critical accounting policies, as well as our significant accounting policies (see Note 2 to the Consolidated Financial Statements), with the Audit Committee of our Board of Directors. We have identified the policies described below as our critical accounting policies.

Goodwill and intangible asset valuation

Goodwill totaled $9,124 as of December 31, 2019. The Company completed its annual goodwill impairment analysis as of December 31, 2019. Our assessment did not result in an impairment. The fair value exceeded the carrying value by 2.4%. Goodwill represents the excess purchase price over the fair value of the net tangible and other identifiable intangible assets acquired. We estimate the fair value of our one reporting unit annually (as of December 31), or more frequently if certain conditions exist, using a combination of the fair values derived from both the income approach and the market approach. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on our estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used to determine the present value of future cash flows is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows. The market approach estimates fair value based on market multiples of revenue and earnings derived from comparable publicly-traded companies with similar operating and investment characteristics. The resulting fair value, based on the income and market approaches, is then compared to the carrying value to determine if impairment is necessary.

The Company completed its annual goodwill impairment analysis as of December 31, 2018, which indicated the carrying value of our reporting unit exceeded its fair value by $1,244. Accordingly, we recorded a $1,244 non-cash impairment charge in 2018. The goodwill impairment loss is included in Goodwill and intangible asset impairment on the Consolidated Statements of Operations.

We reviewed our indefinite lived intangible assets, which consist of brand names totaling $3,700 as of December 31, 2019, using the relief from royalty method. Significant assumptions include the royalty rate, revenue growth rates, and discount rates. Our assumptions were based on historical performance and management estimates of future performance. Our assessment did not result in an impairment in 2019 and 2018.

Sales discounts & allowance.

We offer various trade promotions and sales incentive programs to customers and consumers. From time to time, we grant certain sales discounts to customers which are classified as a reduction in sales. The measurement and recognition of discounts and allowances involve the use of judgment and our estimates are made based on historical experience and specific customer program accruals. Differences between estimated and actual discount and allowance costs are normally not material and are recognized in earnings in the period such differences are determined. The process for analyzing trade promotion programs could impact our results of operations and trade spending accruals depending on how actual results of the programs compare to original estimates. As of December 31, 2019, we had $.7 million of accrued discounts and allowances.

Share-based compensation.

Certain employees and non-employee directors receive various forms of share-based payment awards and we recognize compensation expense for these awards based on their grant date fair values. The fair values of stock option awards are estimated on the grant date using the Black-Scholes option pricing model, which incorporates certain assumptions regarding the expected term of an award and expected stock price volatility. The expected term is determined under the simplified method, using an average of the contractual term and vesting period of the stock options. The expected volatility is based on the historic volatility of our common stock. We do not estimate forfeitures in measuring the grant date fair value, but rather account for forfeitures as they occur. Key assumptions are described in further detail in Note 11 to our consolidated financial statements.

Income taxes.

We pay income taxes based on tax statutes, regulations, and case law of the various jurisdictions in which we operate. At any one time, multiple tax years are subject to audit by the various taxing authorities. Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse.

We recognize an income tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The income tax benefit recognized in our financial statements from such a position is measured based on the largest estimated benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. These judgments and estimates made at a point in time may change based on the outcome of tax audits and changes to, or further interpretations of, regulations. If such changes take place, there is a risk that our tax rate may increase or decrease in any period, which would impact our earnings. Future business results may affect deferred tax liabilities or the valuation of deferred tax assets over time.

***Recent Accounting Pronouncements*.**

See Note 2, Summary of Significant Accounting Policies, in the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K for information regarding recent accounting pronouncements.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Lifeway Foods, Inc. and Subsidiaries:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Lifeway Foods, Inc. and Subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated April 14, 2020 expressed an unqualified opinion on the effectiveness of the company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company changed its method of accounting for leases as a result of the adoption of Accounting Standards Codification Topic 842, Leases effective January 1, 2019, under the modified retrospective method.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Mayer Hoffman McCann P.C.

We have served as the Company's auditor since 2015
Chicago, Illinois
April 14, 2020

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Lifeway Foods, Inc. and Subsidiaries

Opinion on Internal Control over Financial Reporting

We have audited Lifeway Foods, Inc. and Subsidiaries' ("Company") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two year period ended December 31, 2019 and the related notes to the to the consolidated financial statements (collectively referred to as the "financial statements") of the Company and our report dated April 14, 2020 expressed an unqualified opinion that included an explanatory paragraph regarding the Company's change in method of accounting for leases as a result of the adoption of Accounting Standards Codification Topic 842, Leases, effective January 1, 2019, under the modified retrospective method.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Mayer Hoffman McCann P.C.

Chicago, Illinois
April 14, 2020

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2019 and 2018
(In thousands)

	December 31, 2019	December 31, 2018
Current assets		
Cash and cash equivalents	$ 3,836	$ 2,998
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of $1,100 and $1,220 at December 31, 2019 and 2018, respectively	6,692	6,276
Inventories, net	6,392	5,817
Prepaid expenses and other current assets	1,598	1,077
Refundable income taxes	681	2,748
Total current assets	**19,199**	**18,916**
Property, plant and equipment, net	**22,274**	**24,573**
Operating lease right-of use asset	**738**	–
Intangible assets		
Goodwill and indefinite-lived intangibles	12,824	12,824
Other intangible assets, net	152	344
Total intangible assets	**12,976**	**13,168**
Other Assets	1,800	150
Total assets	**$ 56,987**	**$ 56,807**
Current liabilities		
Accounts payable	$ 5,282	$ 4,570
Accrued expenses	4,087	2,777
Accrued income taxes	154	106
Total current liabilities	**9,523**	**7,453**
Line of credit	**2,745**	**5,995**
Operating lease liabilities	**488**	**–**
Deferred income taxes, net	**922**	**390**
Other long-term liabilities	**58**	**564**
Total liabilities	**13,736**	**14,402**
Stockholders' equity		
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at 2019 and 2018	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 15,710 and 15,814 shares outstanding at 2019 and 2018	6,509	6,509
Paid-in capital	2,380	2,303
Treasury stock, at cost	(12,601)	(12,970)
Retained earnings	46,963	46,563
Total stockholders' equity	**43,251**	**42,405**
Total liabilities and stockholders' equity	**$ 56,987**	**$ 56,807**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Years Ended December 31, 2019 and 2018
(In thousands, except per share data)

	2019	2018
Net sales	**$ 93,662**	**$ 103,350**
Cost of goods sold	68,367	74,646
Depreciation expense	3,146	2,846
Total cost of goods sold	71,513	77,492
Gross profit	**22,149**	**25,858**
Selling expenses	11,062	13,477
General and administrative	12,828	13,616
Goodwill and intangible asset impairment	–	1,244
Amortization expense	192	631
Total operating expenses	**24,082**	**28,968**
Loss from operations	**(1,933)**	**(3,110)**
Other income (expense):		
Interest expense	(249)	(271)
Fair value gain on investments	1,731	–
Realized gain on investments, net	1,413	–
Gain on sale of property and equipment	189	54
Other income	84	16
Total other income (expense)	3,168	(201)
Income (loss) before provision for income taxes	**1,235**	**(3,311)**
Provision (benefit) for income taxes	782	(225)
Net income (loss)	**$ 453**	**$ (3,086)**
Basic loss per common share	$ 0.03	$ (0.19)
Diluted loss per common share	$ 0.03	$ (0.19)
Weighted average number of shares outstanding - Basic	15,748	15,872
Weighted average number of shares outstanding - Diluted	15,804	16,319

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2019 and 2018
(In thousands)

	Common Stock						
	Issued		In treasury		Paid-In	Retained	Total
	Shares	$	Shares	$	Capital	Earnings	Equity
Balance, January 1, 2018	**17,274**	**$ 6,509**	**(1,266)**	**$ (11,812)**	**$ 2,244**	**$ 49,649**	**$ 46,590**
Treasury stock purchased	–	–	(218)	(1,379)	–	–	(1,379)
Issuance of common stock in connection with stock-based compensation	–	–	24	221	(89)	–	132
Stock-based compensation	–	–	–	–	148	–	148
Net Loss	–	–	–	–	–	(3,086)	(3,086)
Balance, December 31, 2018	**17,274**	**$ 6,509**	**(1,460)**	**$ (12,970)**	**$ 2,303**	**$ 46,563**	**$ 42,405**
Cumulative impact of change in accounting principles, net of tax	–	–	–	–	–	(53)	(53)
Treasury stock purchased	–	–	(211)	(538)	–	–	(538)
Issuance of common stock in connection with stock-based compensation	–	–	107	907	(438)	–	469
Stock-based compensation	–	–	–	–	515	–	515
Net Income	–	–	–	–	–	453	453
Balance, December 31, 2019	**17,274**	**$ 6,509**	**(1,564)**	**$ (12,601)**	**$ 2,380**	**$ 46,963**	**$ 43,251**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018
(In thousands)

	2019	2018
Cash flows from operating activities:		
Net income (loss)	**$ 453**	**$ (3,086)**
Adjustments to reconcile net income (loss) to operating cash flow:		
Depreciation and amortization	3,338	3,477
Non-cash interest expense	23	14
Non-cash rent expense	(17)	–
Bad debt expense	7	21
Deferred Revenue	(97)	(97)
Reserve for inventory obsolescence	(52)	558
Stock-based compensation	838	802
Deferred income taxes	533	(451)
Fair value gain on investment	(1,731)	–
Net gain on sale of investment	(1,413)	–
Gain on sale of property and equipment	(189)	(54)
Goodwill impairment	–	1,244
(Increase) decrease in operating assets:		
Accounts receivable	(423)	2,379
Inventories	(523)	1,322
Refundable income taxes	2,067	(401)
Prepaid expenses and other current assets	(526)	(78)
Increase (decrease) in operating liabilities:		
Accounts payable	710	(2,278)
Accrued expenses	783	(858)
Operating lease asset amortization/liability	(17)	–
Accrued income taxes	47	(97)
Net cash provided by operating activities	**3,811**	**2,417**
Cash flows from investing activities:		
Purchases of investments	(15)	(500)
Proceeds from sale of investments	1,509	500
Purchases of property and equipment	(1,178)	(2,824)
Proceeds from sale of property and equipment	522	104
Net cash used in investing activities	**838**	**(2,720)**
Cash flows from financing activities:		
Purchase of treasury stock	(538)	(1,379)
Borrowings under revolving credit facility	–	6,050
Repayment of line of credit	(3,273)	–
Payment of deferred financing costs	–	(69)
Repayment of notes payable	–	(6,279)
Net cash used in financing activities	**(3,811)**	**(1,677)**
Net increase (decrease) in cash and cash equivalents	**838**	**(1,980)**
Cash and cash equivalents at the beginning of the period	2,998	4,978
Cash and cash equivalents at the end of the period	**$ 3,836**	**$ 2,998**

Supplemental cash flow information:				
Cash paid for income taxes, net of (refunds)	$	(1,865)	$	723
Cash paid for interest		259		261
Right-of-use assets and operating lease obligations recognized at ASU 2016-02 transition		997		–
Right-of-use assets and operating lease obligations recognized after ASU 2016-02 transition		305		–

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(In thousands)

Note 1 – Basis of presentation

The accompanying consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Our consolidated financial statements include all of the assets, liabilities and results of operations of Lifeway's wholly owned subsidiaries (collectively "Lifeway" or the "Company"). All inter-company balances and transactions have been eliminated in the consolidated financial statements.

Note 2 – Summary of 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.

Going Concern

The Company follows the guidance in Accounting Standards Codification ("ASC") 205-40, Presentation of Financial Statements - Going Concern which requires management to assess an entity's ability to continue as a going concern and to provide related disclosure in certain circumstances. There were no conditions or events, when considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the financial statements are issued.

Revenue Recognition

We sell food and beverage products across select product categories to customers predominantly within the United States (see Note 12, Segments, Products and Customers). We also sell bulk cream, a byproduct of our fluid milk manufacturing process. In accordance with ASC 606, Revenue from Contracts with Customers, we recognize revenue when control over the products transfers to our customers, which generally occurs upon delivery to our customers or their common carriers. The Company adopted this standard at the beginning of fiscal year 2018, with no significant impact to its financial position or results of operations, using the modified retrospective method. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services, using the five-step method required by ASC 606.

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

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

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

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

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

Accounts Receivable

We provide credit terms to customers in-line with industry standards and maintain allowances for potential credit losses based on historical experience. Customer balances are written off after all collection efforts are exhausted. Estimated product returns, which have not been material, are deducted from sales at the time of revenue recognition.

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. Lifeway has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to its cash and cash equivalents.

Inventories

Inventories are stated at the lower of cost or net realizable value, valued on a first in, first out basis ("FIFO"). The costs of finished goods inventories include raw materials, direct labor, and overhead costs. Inventories are stated net of reserves for excess or obsolete inventory.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets as follows:

Asset	Useful Life
Buildings and improvements	31 and 39 years
Machinery and equipment	5 – 12 years
Office equipment	3 – 7 years
Vehicles	5 years
Leasehold improvements	Shorter of expected useful life or lease term

We perform impairment tests when circumstances indicate that the carrying value of an asset may not be recoverable. Expenditures for repairs and maintenance, which do not improve or extend the life of the assets, are expensed as incurred.

Intangible Assets

Goodwill and indefinite-lived intangible assets

Goodwill represents the excess purchase price over the fair value of the net tangible and other identifiable intangible assets acquired. We estimate the fair value of our one reporting unit annually (as of December 31), or more frequently if certain conditions exist, using a combination of the fair values derived from both the income approach and the market approach. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on our estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used to determine the present value of future cash flows is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows. The market approach estimates fair value based on market multiples of revenue and earnings derived from comparable publicly-traded companies with similar operating and investment characteristics. The resulting fair value, based on the income and market approaches, is then compared to the carrying value to determine if impairment is necessary. In the fourth quarter of 2018, we early adopted ASU 2017-04, Intangibles — Goodwill and Other: Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test.

We assess whether indefinite-lived intangible asset impairment exists using both qualitative and quantitative assessments annually in the fourth quarter or more frequently, if certain conditions exist. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If, based on this qualitative assessment, we determine it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount or if we elect not to perform a qualitative assessment, a quantitative assessment is performed to determine whether an indefinite-lived intangible asset impairment exists. We test the indefinite-lived intangible assets for impairment by comparing the carrying value to the fair value based on current revenue projections of the related operations, under the relief from royalty method. Any excess of the carrying value over the amount of fair value is recognized as an impairment. Any such impairment would be recognized in full in the reporting period in which it has been identified.

Definite lived intangible assets

Intangible assets acquired in a business combination are recorded at their estimated fair values at the date of acquisition. Identifiable intangible assets with finite lives are amortized over their estimate useful lives as follows:

Asset	Useful Life
Recipes	4 years
Trade names	8-15 years
Formula	10 years
Customer lists	8-10 years
Customer relationships	8-12 years

All amortization expense related to intangible assets is recorded in Amortization expense in the Consolidated Statements of Operations.

Amortizable intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Lifeway conducts more frequent impairment assessments if certain conditions exist, such as a change in the competitive landscape, any internal decisions to pursue new or different strategies, a loss of a significant customer, or a significant change in the market place including changes in the prices paid for our products or changes in the size of the market for our products. If an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is generally based on discounted future cash flows. If the estimated remaining useful life of an intangible asset is changed, the remaining carrying amount of the intangible asset is amortized prospectively over the revised remaining useful life.

Fair Value Measurements

Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3. Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Lifeway's financial assets and liabilities that are not carried at fair value on a recurring basis include cash and cash equivalents, accounts receivable, other receivables, accounts payable, accrued expenses and revolving line of credit for which carrying value approximates fair value.

The Company records its investments in equity securities without a readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. During October 2019, the Company sold approximately 45.6% of one of its investments recorded under the cost method and recognized a $1,438 gain on sale of investment, which is recorded in other income (expense) on the consolidated statements of operations. The Company also recorded an unrealized gain of $1,731 resulting from the observable price change of this transaction, which is recorded in other income (expense) on the consolidated statements of operations. As of December 31, 2019, the Company has one investment without a readily determinable fair value which is recorded at $1,800 in other assets on the consolidated balance sheet.

Income taxes

The Provision for income taxes includes federal, state, local and foreign income taxes currently payable, and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using enacted tax rates expected to apply to taxable income in the year in which the deferred tax assets or liabilities are expected to be realized or settled. The principal sources of temporary differences are different depreciation and amortization methods for financial statement and tax purposes, net operating carryforwards, incentive compensation, unrealized gain, capitalization of indirect inventory costs for tax purposes, reserves for excess and obsolete inventory, the allowance for doubtful accounts, and interest expense limitations.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely not that a tax benefit will not be realized. Deferred income tax expense or benefit is based on the changes in the asset or liability from period to period.

Lifeway has analyzed filing positions in all the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. We recognize the income tax benefit from an uncertain tax position when it is more likely than not that, based on technical merits, the position will be sustained upon examination, including resolutions of any related appeals or litigation processes. We apply a more likely than not threshold to the recognition and derecognition of uncertain tax positions. Accordingly, we recognize the amount of tax benefit that has a greater than 50% likelihood of being ultimately realized upon settlement. Future changes in judgment related to the expected ultimate resolution of uncertain tax positions will affect earnings in the period of such change. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. The total amount of unrecognized tax benefits can change due to audit settlements, tax examination activities, statute expirations and the recognition and measurement criteria under accounting for uncertainty in income taxes. Lifeway recognizes penalties and interest related to unrecognized tax benefits in the provision (benefit) for income taxes in the consolidated statements of operations.

Share-based compensation

Share-based compensation expense is recognized for equity awards over the vesting period based on their grant date fair value. The fair value of restricted stock awards is equal to the closing price of our stock on the date of grant.

Treasury stock

Treasury stock is recorded using the cost method.

Advertising costs

Lifeway expenses advertising costs as incurred and reported in Selling expense in our Consolidated Statements of Operations. For the years ended December 31, 2019 and 2018 total advertising expenses were $3,394 and $4,518, respectively.

Earnings (loss) per common share

Basic earnings (loss) per common share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares issued and outstanding during the reporting period. Diluted earnings (loss) per common share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares issued and outstanding and the effect of all dilutive common stock equivalents related to the Company's outstanding stock-based compensation awards outstanding during the reporting period. For the years ended December 31, 2019 and 2018, there were 56 and 0 common stock equivalents outstanding, respectively.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842), which affects any entity that enters into a lease (as that term is defined in ASU 2016-02), with some specified scope exceptions. Under ASU 2016-02, companies can adopt the amended guidance using a modified retrospective transition approach, using an application date of either the beginning of the earliest comparative period presented or the beginning of the reporting period in which the companies first apply the new standard. We adopted this standard on January 1, 2019 using the application date of January 1, 2019, and elected certain practical expedients allowed under the standard. In July 2018, the FASB issued ASU No. 2018-11, Leases (842), Targeted Improvements, which provides an additional transition election to not restate comparative periods for the effects of applying the new standard. The guidance requires lessees to recognize right-of-use assets and lease liabilities in the balance sheet and disclose key information about leasing arrangements, such as information about variable lease payments and options to renew and terminate leases. The amended guidance will require both operating and finance leases to be recognized in the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term.

Lifeway elected certain of the practical expedients that are permitted under the transition guidance within ASU 2016-02 and related standards. Among other things, this practical expedient allowed us to carryforward the historical lease classification, and not reassess initial direct costs for any existing leases as of January 1, 2019 or reassess whether any expired or existing contracts are or contain leases. In addition, we elected to adopt the hindsight practical expedient to determine the reasonably certain lease term for existing leases. We made an accounting policy election to continue recording leases with an initial term of 12 months or less consistent with our prior financial reporting and elect the practical expedient to combine lease and non-lease components. We have revised our relevant policies and procedures, as applicable, to meet the new accounting, reporting and disclosure requirements of Topic 842 and have updated internal controls accordingly.

The main difference between the guidance in ASU 2016-02 and prior GAAP is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases under current GAAP. Recognition of the right-of-use assets and liabilities had a material impact to our consolidated balance sheet upon adoption. However, since all our leases are operating leases under ASC 840 and we will carryforward the historical lease classification, the new standard did not have a material impact on our Consolidated Statements of Operations, Consolidated Statements of Stockholders' Equity, or Consolidated Statements of Cash Flows for the year ended December 31, 2019. The adoption resulted in an increase of the right-of-use assets of approximately $944 and lease liabilities of $997, and an adjustment to beginning retained earnings of $53 as of January 1, 2019.

Recently Issued Accounting Pronouncements

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

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The new guidance is intended to enhance and simplify various aspects of the accounting for income taxes. The new guidance eliminates certain exceptions to the general approach to the income tax accounting model, and adds new guidance to reduce the complexity in accounting for income taxes. The guidance will be effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. Early adoption of the amendments is permitted, including adoption in any interim period for public business entities for periods for which financial statements have not yet been issued. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

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

Note 3 – Inventories, net

Inventories consisted of the following:

	December 31, 2019	December 31, 2018
Ingredients	$ 1,942	$ 1,580
Packaging	2,230	2,072
Finished goods	2,220	2,165
Total inventories, net	$ 6,392	$ 5,817

Note 4 – Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

	December 31, 2019	December 31, 2018
Land	$ 1,565	$ 1,747
Buildings and improvements	17,332	17,520
Machinery and equipment	30,670	29,692
Vehicles	778	937
Office equipment	851	838
Construction in process	362	546
	51,558	51,280
Less accumulated depreciation	(29,284)	(26,707)
Total property, plant and equipment, net	$ 22,274	$ 24,573

Note 5 – Goodwill and Intangible Assets

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

	December 31, 2019	December 31, 2018
Goodwill	$ 10,368	$ 10,368
Accumulated impairment losses	(1,244)	(1,244)
Goodwill	9,124	9,124
Brand names	3,700	3,700
Goodwill and indefinite lived intangible assets	$ 12,824	$ 12,824

Goodwill

The Company performed the annual impairment assessment of goodwill for our single reporting unit as of December 31, 2019, noting no impairment loss. The fair value exceeded the carrying value by 2.4%. Considerable management judgment is necessary to evaluate goodwill for impairment. We estimate fair value using widely accepted valuation techniques including discounted cash flows and market multiples analysis with respect to our single reporting unit. These valuation approaches are dependent upon a number of factors, including estimates of future growth rates, our cost of capital, capital expenditures, income tax rates, and other variables. Assumptions used in our valuations were consistent with our internal projections and operating plans. Our discounted cash flows forecast could be negatively impacted by a change in the competitive landscape, any internal decisions to pursue new or different strategies, a loss of a significant customer, or a significant change in the market place including changes in the prices paid for our products or changes in the size of the market for our products. Additionally, under the market approach analysis, we used significant other observable inputs including various guideline company comparisons. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. Changes in these estimates or assumptions could materially affect the determination of fair value and the conclusions of the quantitative goodwill test for our one reporting unit.

Upon completion of the annual goodwill impairment analysis as of December 31, 2018, the Company recorded impairment losses of $1,244. The goodwill impairment loss is included in Goodwill and intangible asset impairment on the Consolidated Statements of Operations.

Indefinite-lived Intangible Assets

The Company performed the annual impairment assessment on the indefinite-lived intangible asset as of December 31, 2019 and 2018, resulting in no impairment losses.

Finite-lived Intangible Assets

Other intangible assets, net consisted of the following:

	December 31,	
	2019	2018
Recipes	$ 44	$ 44
Customer lists and other customer related intangibles	4,529	4,529
Customer relationships	985	985
Trade names	2,248	2,248
Formula	438	438
	8,244	8,244
Accumulated amortization	(8,092)	(7,900)
Intangible assets, net	$ 152	$ 344

The remaining $152 of intangible asset at December 31, 2019 is expected to be amortized in 2020.

Note 6 – Accrued Expenses

Accrued expenses consisted of the following:

	December 31,	
	2019	2018
Payroll and incentive compensation	$ 3,009	$ 1,937
Current portion of operating lease liabilities	285	–
Real estate taxes	398	398
Other	395	442
Total accrued expenses	$ 4,087	$ 2,777

Note 7 – Debt

Notes Payable

The two term loans were refinanced and paid in full on May 7, 2018. The term loans were subject to interest at the prime rate or at the LIBOR plus 2.5% and were collateralized by substantially all of Lifeway's assets. See Line of Credit below.

Line of Credit

On May 7, 2018, Lifeway entered into an Amended and Restated Loan and Security Agreement (the "Revolving Credit Facility") with its existing lender. The Revolving Credit Facility provides for a revolving line of credit up to a maximum of $10 million (the "Revolving Loan") with an incremental facility not to exceed $5 million (the "Incremental Facility" and together with the Revolving Loan, the "Loans"). The proceeds of the Loans were used to pay off Lifeway's existing debt with the lender under the Loan and Security Agreement, Revolving Note, and Term Note entered into on February 6, 2009, and for general working capital purposes. Upon closing, we retired all the then-outstanding term loans described above.

As of December 31, 2019, we had $2,745 net of $32 of unamortized deferred financing costs, outstanding under the Revolving Credit Facility. We had approximately $5,412 available under the Borrowing Base for future borrowings as of December 31, 2019.

All outstanding amounts under the Loans bear interest, at Lifeway's election, at either the lender Base Rate (the greater of either the Federal Funds Rate plus 0.5%, or the Prime Rate) or the LIBOR plus 2.50%, payable monthly in arrears. Lifeway is also required to pay a quarterly unused line fee and, in conjunction with the issuance of any letters of credit, a letter of credit fee.

The commitment under the Revolving Credit Facility matures May 7, 2021. The Revolving Credit Facility is presented as a long-term debt obligation as of December 31, 2019. The Loans and all other amounts due and owed under the Revolving Credit Facility and related documents are secured by substantially all of our assets.

Amounts available for borrowing under the Revolving Credit Facility equal the lesser of (i) the Borrowing Base (as defined below), or (ii) $10 million (plus the amount of any Incremental Facility requested by Lifeway and approved by lender), in each case, as the same is reduced by the aggregate principal amount outstanding under the Loans. "Borrowing Base" under the Revolving Credit Facility means, generally, an amount equal to our cash and cash equivalents plus our eligible accounts receivable and eligible inventory, less certain reserves, divided by 1.5.

The Revolving Credit Facility contains customary representations, warranties, and covenants on the part of Lifeway, including financial covenants requiring us to achieve a minimum EBITDA threshold for each of the fiscal quarters through December 31, 2018; maintain (a) a fixed charge coverage ratio of no less than 1.25 to 1.0, and (b) a Senior Debt to EBITDA ratio of not more than 3.00 to 1.0 at December 31, 2018 and for each of the succeeding fiscal quarters ending through the expiration date. The Revolving Credit Facility also provides for events of default, including failure to repay principal and interest when due and failure to perform or violation of the provisions or covenants of the agreement, as a result of which amounts due under the Revolving Credit Facility may be accelerated.

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

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

As amended, all outstanding amounts under the Loans bear interest, based on a level of the Senior Debt to EBITDA ratio, at Lifeway's election, at either the lender Base Rate (the greater of either the Federal Funds Rate plus 0.0% to 0.5%, or the Prime Rate) or the LIBOR plus 2.25% to 3.00%, payable monthly in arrears. Lifeway is also required to pay a quarterly unused line fee of 0.25% and, in conjunction with the issuance of any letters of credit, a letter of credit fee. Lifeway's interest rate on debt outstanding under our Revolving Credit Facility as of December 31, 2019 was 4.36%.

As amended, the Modified Revolving Credit Facility contains customary representations, warranties, and covenants on the part of Lifeway, including financial covenants requiring us to achieve a minimum EBITDA threshold for each of the fiscal quarters through December 31, 2019, and maintain a fixed charge coverage ratio of no less than 1.25 to 1.00 for each of the fiscal quarters ending through the expiration date. The Modified Revolving Credit Facility also provides for events of default, including failure to repay principal and interest when due and failure to perform or violation of the provisions or covenants of the agreement, as a result of which amounts due under the Modified Revolving Credit Facility may be accelerated.

We were in compliance with the minimum EBITDA and fixed charge coverage ratio covenants at December 31, 2019.

Note 8 – Leases

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

We do not record leases with an initial term of 12 months or less on the balance sheet. Expense for these short-term leases is recorded on a straight-line basis over the lease term. Total lease expense was $688 and $769 (including short term leases) for the period ended December 31, 2019 and 2018, respectively.

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

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

Future maturities of lease liabilities were as follows

Year	Operating Leases
2020	$ 312
2021	238
2022	197
2023	71
Thereafter	7
Total lease payments	825
Less: Interest	(51)
Present value of lease liabilities	$ 774

The weighted-average remaining lease term for our operating leases was 2.8 years as of December 31, 2019. The weighted average discount rate of our operating leases was 5.44% as of December 31, 2019. Cash paid for amounts included in the measurement of lease liabilities was $583 for the year ended December 31, 2019.

Note 9 – Commitments and Contingencies

Litigation

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

We record accruals for outstanding legal matters when we believe it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. We evaluate, on a periodic basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, we do not establish an accrued liability. Currently, none of our accruals for outstanding legal matters are material individually or in the aggregate to our financial position and it is management's opinion that the ultimate resolution of these outstanding legal matters will not have a material adverse effect on our business, financial condition, results of operations, or cash flows. However, if we ultimately are required to make payments in connection with an adverse outcome, it is possible that it could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

Note 10 – Income taxes

The provision (benefit) for income taxes consists of the following:

	For the Years Ended December 31,	
	2019	2018
Current:		
Federal	$ (27)	$ (13)
State and local	276	249
Total current	249	236
Deferred	533	(461)
Provision (benefit) for income taxes	$ 782	$ (225)

A reconciliation of the U.S. federal statutory rate to the effective tax rate used in the provision for income taxes is as follows:

	2019		2018	
	Amount	Percentage	Amount	Percentage
Federal income tax at statutory rate	$ 259	21.0%	$ (695)	21.0%
State and local tax, net	180	14.5%	(47)	1.4%
Goodwill impairment	–	0.0%	324	(9.8)%
Oher permanent differences	14	1.1%	147	(4.4)%
Section 162m	105	8.5%	–	0.0%
Stock based compensation	149	12.1%	–	0.0%
Uncertain tax positions	79	6.4%	–	0.0%
Change in tax rates	8	0.7%	(37)	1.1%
Change in tax estimate	(12)	(1.0)%	83	(2.5)%
Benefit for income taxes	$ 782	63.3%	$ (225)	6.8%

The tax effects of temporary differences giving rise to deferred income tax assets and liabilities are as follows:

	December 31, 2019	December 31, 2018
Deferred tax liabilities attributable to:		
Accumulated depreciation and amortization	$ (2,015)	$ (2,062)
Unrealized gains	(465)	–
Total deferred tax liabilities	(2,480)	(2,062)
Deferred tax assets attributable to:		
Net operating losses	507	595
Capital loss carry-forward & investment impairment	–	115
Accrued compensation	89	–
Incentive compensation	473	448
Inventory	312	355
Allowances for doubtful accounts and discounts	115	109
Deferred revenue	40	–
Other	22	50
Total net deferred tax assets	1,558	1,672
Net deferred tax liabilities	$ (922)	$ (390)

The following table details the Company's tax attributes related to net operating losses for which it has recorded deferred tax assets.

Tax Attributes	Net Attribute Amount	Net Attribute Amount	Expiration Years
U.S. net operating losses	$ 1,759	$ 370	No expiration
Illinois net operating losses	1,762	132	2030 - 2031
Other state net operating losses	119	5	2034 - 2038
		$ 507	

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2019	2018
Balance at January 1	$ 63	$ 181
Additions based on tax positions of prior years	79	–
Reduction for tax positions of prior years	–	(118)
Balance at December 31	$ 142	$ 63

Lifeway is subject to U.S. federal income tax as well as income tax in multiple state and city jurisdictions. With limited exceptions, our calendar year 2016 and subsequent federal and state tax years remain open by statute. The annual effective tax rate would have decreased by 11.5% as of December 31, 2019 if the unrecognized tax benefits were recognized. The amount of unrecognized tax benefits that, if recognized, would impact the annual effective tax rate was not significant as of December 31, 2018.

The amount of interest and penalties recognized in the consolidated statements of operations was $41 and $0 during 2019 and 2018, respectively. The amount of accrued interest and penalties recognized in the consolidated balance sheets was $60 and $19 at December 31, 2019 and 2018, respectively.

Note 11 – Stock-based and Other Compensation

In December 2015, Lifeway stockholders approved the 2015 Omnibus Incentive Plan, which authorized the issuance of an aggregate of 3.5 million shares to satisfy awards of stock options, stock appreciation rights, unrestricted stock, restricted stock, restricted stock units, performance shares and performance units to qualifying employees. Under the Plan, the Board or its Audit and Corporate Governance Committee approves stock awards to executive officers and certain senior executives, generally in the form of restricted stock or performance shares. The number of performance shares that participants may earn depends on the extent to which the corresponding performance goals have been achieved. Stock awards generally vest over a three-year performance or service period. At December 31, 2019, 3.377 million shares remain available under the Omnibus Incentive Plan. While we plan to continue to issue awards pursuant to the Plan at least annually, we may choose to suspend the issuance of new awards in the future and may grant additional awards at any time including issuing special grants of restricted stock, restricted stock units, and stock options to attract and retain new and existing executives.

Stock Options

The following table summarizes stock option activity during the year ended December 31, 2019:

	Options	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding at December 31, 2018	41	$ 10.42	7.23	–
Granted	–	$ –	–	
Exercised	–	$ –	–	–
Forfeited	–	$ –	–	–
Outstanding at December 31, 2019	41	$ 10.42	6.22	$ –
Exercisable at December 31, 2019	41	$ 10.42	6.22	$ –

For the years ended December 31, 2019 and 2018 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $1 and $9, respectively. For the years ended December 31, 2019 and 2018 tax-related benefits of $0 and $3 were also recognized. As of December 31, 2019, all outstanding options are vested and there is no remaining unearned compensation expense.

We measure the fair value of stock options using the Black-Scholes option pricing model. The expected term of options granted was based on the weighted average time of vesting and the end of the contractual term. We utilized this simplified method as we did not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term.

Restricted Stock Awards

A Restricted Stock Award ("RSA") represents the right to receive one share of common stock in the future. RSAs have no exercise price. The grant date fair value of the awards is equal to our closing stock price on the grant date. The following table summarizes RSA activity during the year ended December 31, 2019.

	RSA's
Outstanding at December 31, 2018	25
Granted	39
Shares issued upon vesting	(18)
Forfeited	–
Outstanding at December 31, 2019	47
Weighted average grant date fair value per share outstanding	$ 4.01

We expense RSA's over the service period. For the years ended December 31, 2019 and 2018 total pre-tax stock-based compensation expense recognized in the consolidated statements of operations was $109 and $47, respectively. For the years ended December 31, 2019 and 2018 tax-related benefits of $30 and $13, respectively, were also recognized. As of December 31, 2019, the total remaining unearned compensation related to non-vested RSA's was $107, which is expected to be amortized over the weighted-average remaining service period of 1.38 years.

Long-Term Incentive Plan Compensation

Lifeway established long-term incentive-based compensation programs for fiscal year 2017 (the "2017 Plan"), fiscal year 2018 (the "2018 Plan"), and for fiscal year 2019 (the "2019 Plan") for certain senior executives and key employees (the "participants"). Under both the 2017 Plan and the 2018 Plan, long-term incentive compensation is based on Lifeway's achievement of certain sales and adjusted EBITDA performance levels versus respective targets established by the Board for each fiscal year. Under the 2019 Plan, long-term equity incentive compensation is based on Lifeway's achievement of four strategic milestones over a three-year period from Fiscal 2019 through Fiscal 2021.

2017 Plan

Under the 2017 Plan, collectively the participants had the opportunity to earn cash and equity-based incentive compensation in amounts ranging from $0 to $11,025 depending on Lifeway's performance levels compared to the respective targets and the participants performance compared to their individual objectives. The equity portion of the incentive compensation is payable in restricted stock that vests one-third in each of the three years from the 2017 grant dates. For the year ended December 31, 2019 and 2018, $288 and $636 was expensed under the 2017 Plan as stock-based compensation expense in the consolidated statements of operations, respectively. As of December 31, 2019, the total remaining unearned compensation related to the 2017 Plan was $49, which is expected to be recognized in 2020, subject to vesting.

2018 Plan

Under the 2018 Plan, collectively the participants had the opportunity to earn cash and equity-based incentive compensation in amounts ranging from $0 to $11,200 depending on Lifeway's performance levels compared to the respective targets and the participants performance compared to their individual objectives. The equity portion of the incentive compensation was payable in restricted stock that vests one-third in each of the three years from the 2018 grant dates. Due to the final fiscal 2018 financial results, there were no equity-based incentives awarded under the 2018 Plan.

2019 Plan

Under the 2019 Plan, collectively the participants have the opportunity to earn equity-based incentive compensation in amounts ranging from $0 to $1,733 depending on Lifeway's performance levels compared to the respective targets. The equity-based incentive compensation is payable in restricted stock that vests 50% of unvested shares in year one, 50% of unvested shares in year two, and 100% of remaining unvested shares in year three from the 2019 grant date. For the year ended December 31, 2019, $51 was expensed under the 2019 Plan as stock-based compensation expense in the consolidated statements of operations.

2019 Retention Award

During Q1 2019, we awarded a special retention grant (the "2019 Retention Award") of restricted stock to senior executives and key employees (the "participants"). The equity-based incentive compensation is payable in restricted stock that vests one-third in March 2019, one-third in March 2020 and one-third in March 2021. For the period ended December 31, 2019, $342 was expensed under the 2019 Retention Award as stock-based compensation expense in the consolidated statements of operations.

Retirement Benefits

Lifeway has a defined contribution plan which is available to substantially all full-time employees. Under the terms of the plan we match employee contributions under a prescribed formula. For the years ended December 31, 2019 and 2018 total contribution expense recognized in the consolidated statements of operations was $367 and $417, respectively.

Note 12 – Segments, Products and Customers

Lifeway's primary product is drinkable kefir, a cultured dairy product. Lifeway Kefir is tart and tangy, high in protein, calcium and vitamin D. Thanks to our exclusive blend of kefir cultures, each cup of kefir contains 12 live and active cultures and 15 to 20 billion beneficial CFU (Colony Forming Units) at the time of manufacture.

We manufacture (directly or through co-packers) our products under our own brand, as well as under private labels on behalf of certain customers. As of December 31, 2019, Lifeway offered approximately 20 varieties of our kefir products including more than 60 flavors. In addition to our core drinkable kefir products, we offer several lines of products developed through our innovation and development efforts. These include Kefir Cups, a strained, cupped version of our kefir; and Organic Farmer Cheese Cups, a cupped version of our soft cheeses, both served in resealable 5 oz. containers. We also offer Skyr, a strained cupped Icelandic yogurt; Plantiful, a plant-based probiotic beverage made from organic and non-GMO pea protein with 10 vegan kefir cultures; a line of probiotic supplements for adults and children; and a soft serve kefir mix.

Our product categories are:

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

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

Net sales of products by category were as follows for the years ended December 31:

	2019		2018	
In thousands	$	%	$	%
Drinkable Kefir other than ProBugs	$ 71,822	77%	$ 78,523	76%
Cheese	11,459	12%	11,486	11%
Cream and other	4,228	4%	5,276	5%
ProBugs Kefir	2,780	3%	2,795	3%
Other dairy	1,756	2%	3,836	4%
Frozen Kefir (a)	1,617	2%	1,434	1%
Net Sales	$ 93,662	100%	$ 103,350	100%

(a) Includes Lifeway Kefir Shop sales

Significant Customers – Sales are predominately to companies in the retail food industry located within the United States. Two major customers accounted for approximately 22% and 21% of net sales for the years ended December 31, 2019 and 2018, respectively. Two major customers accounted for approximately 17% of accounts receivable as of December 31, 2019 and 2018. Our ten largest customers as a group accounted for approximately 57% and 59% of net sales for the years ended December 31, 2019 and 2018, respectively.

Note 13 – Share repurchase program

On September 24, 2015, Lifeway's Board of Directors authorized a stock repurchase program (the "2015 stock repurchase program") under which we may, from time to time, repurchase shares of our common stock for an aggregate purchase price not to exceed the lesser of $3,500 or 250 shares. On November 1, 2017, the Board amended the 2015 stock repurchase program (the "2017 amendment"), by adding to (i.e., exclusive of the shares previously authorized under the 2015 stock repurchase program) the authorization the lesser of $5,185 or 625 shares. Under the amended authorization, share repurchases may be executed through various means, including without limitation in the open market or in privately negotiated transactions, in accordance with all applicable securities laws and regulations, including without limitation Rule 10b-18 of the Securities Exchange Act of 1934, as amended. The extent to which Lifeway repurchases its shares and the timing of such repurchases will depend upon a variety of factors, including market conditions, regulatory requirements and other corporate considerations. The repurchase program does not obligate us to purchase any shares, and the program may be terminated, suspended, increased, or decreased by our Board in its discretion at any time.

Pursuant to the share repurchase program, during the year ended December 31, 2019, the Company repurchased 211 shares at a cost of $538 or approximately $2.55 per share. During the year ended December 31, 2018, the Company repurchased 218 shares at a cost of $1,379 or approximately $6.33 per share. Approximately $3,965 remained available under this program as of December 31, 2019.

Note 14 – Related party transactions

Lifeway obtains consulting services from the Chairperson of its board of directors. Fees earned are included in general and administrative expenses in the accompanying consolidated statements of operations and were $1,000 during the years ended December 31, 2019 and 2018.

Lifeway is also a party to a royalty agreement with the Chairperson of its board of directors under which we pay the Chairperson a royalty based on the sale of certain Lifeway products, not to exceed $50 in any fiscal month. Royalties earned are included in selling expenses in the accompanying consolidated statements of operations and were $588 and $587 during the years ended December 31, 2019 and 2018, respectively.

Note 15 – Subsequent events

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. On March 16, 2020, the food industry, including grocery stores and their suppliers, and transportation were classified by the U.S. federal government as critical infrastructure industry. The Company is closely monitoring the impact of the pandemic on all aspects of its business, including how it will impact its customers, team members, suppliers, vendors, business partners and distribution channels. While the Company has not incurred significant disruptions subsequent to December 31, 2019 from COVID-19, it is unable to predict the impact that COVID-19 will have on its financial position and operating results due to numerous uncertainties.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure material information required to be disclosed in our reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer, principal financial officer and principal accounting officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, we recognize that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

As of December 31, 2019 (the "Evaluation Date"), we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2019 in ensuring that information required to be disclosed by us under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified under the Exchange Act rules.

The attestation report of Mayer Hoffman McCann P.C., our independent registered public accounting firm, regarding Lifeway's internal control over financial reporting is provided under "Financial Statements and Supplementary Data."

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is identified in Exchange Act Rules 13a-15(f). Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer, principal financial officer and principal accounting officer, and effected by the Board of Directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;

- provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures of the company are being made only in accordance with authorizations of our management and our directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our consolidated financial statements.

Internal control over financial reporting has inherent limitations which may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the level of compliance with related policies or procedures may deteriorate.

Management, including our Chief Executive Officer and our Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework (2013). Based on this assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2019.

Remediation of the Material Weakness

During 2019, management evaluated our policies and procedures related to the review of the analysis in goodwill impairment reports prepared by third-party valuation experts and designed and implemented adequate internal controls and procedures to ensure that (i) goodwill impairment is properly reviewed, accounted for and disclosed, and (ii) management can more effectively evaluate analysis conducted by third-party valuation service providers that perform the step one goodwill impairment analysis.

Changes in Internal Control over Financial Reporting

Except as discussed above there were no changes in our internal control over financial reporting that occurred during 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Corporate Governance Guidelines and Code of Ethics

We have adopted Corporate Governance Guidelines and a Code of Ethics applicable to all members of the Board, executive officers, and employees, including our principal executive officer and principal financial officer. The Corporate Governance Guidelines, the Code of Ethics, and other corporate governance documents are available on Lifeway's website at www.lifewayfoods.com. Any person may, without charge, request a copy of the Corporate Governance Guidelines and/or Code of Ethics by contacting Lifeway at (847) 967-1010 or by email at info@lifeway.net.

Other information required by this Item 10 will be included in our definitive Proxy Statement to be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item 11 will be included in our definitive Proxy Statement to be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information required by this Item 12 will be included in our definitive Proxy Statement to be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

Information required by this Item 13 will be included in our definitive Proxy Statement to be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Information required by this Item 14 will be included in our definitive Proxy Statement to be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

1. A list of the Financial Statements and Financial Statement Schedules filed as part of this Report is set forth in Part II, Item 8, which list is incorporated herein by reference.

2. Financial Statement Schedules – Separate financial statement schedules have been omitted either because they are not applicable or because the required information is included in the consolidated financial statements

3. Exhibits.

No.	Description	Form	Period Ending	Exhibit	Filing Date
3.1	Amended and Restated Bylaws.	10-K	12/31/2017	3.1	3/30/2018
3.2	Articles of Incorporation, as amended and currently in effect	10-K	12/31/2013	3.2	4/2/2014
10.1	Stock Purchase Agreement dated October 1, 1999 by and among Danone Foods, Inc., Lifeway Foods, Inc., Michael Smolyansky and certain other parties	8-K	0	10.1	10/12/1999
10.2	Stockholders' Agreement dated October 1, 1999 by and among Danone Foods, Inc., Lifeway Foods, Inc., Michael Smolyansky and certain other parties	8-K	0	10.11	10/12/1999
10.3	Letter Agreement dated December 24, 1999	8-K	0	10.12	1/12/2000
10.4	Employment Agreement, dated September 12, 2002, between Lifeway Foods, Inc. and Julie Smolyansky	10-QSB/A No. 2	9/30/2002	10.14	4/30/2003
10.5	Consulting Agreement by and between the Company and Ludmila Smolyansky, dated as of March 8, 2016	10-K	12/31/2015	10.23	3/16/2016
10.6	Endorsement Agreement by and between the Company and Ludmila Smolyansky, dated as of March 14, 2016	10-K	12/31/2015	10.24	3/16/2016
10.7	Amended and Restated Loan and Security Agreement dated as of May	8-K		10.1	5/11/2018

	7, 2018 among Lifeway Foods, Inc., Fresh Made, Inc., The Lifeway Kefir Shop, LLC, Lifeway Wisconsin, Inc., and CIBC Bank USA, as Lender.	

10.8	Employment Agreement by and between the Company and Amy Feldman, dated as of October 29, 2018	8-K		10.1	11/1/2018
10.9	Employment Agreement by and between the Company and Eric Hanson, dated as of January 18, 2019				1/23/2019
10.10	First Modification to Amended and Restated Loan and Security Agreement dated as of April 10, 2019 among Lifeway Foods, Inc., Fresh Made, Inc., The Lifeway Kefir Shop, LLC, Lifeway Wisconsin, Inc., and CIBC Bank USA, as Lender.	10-K		10.1	4/15/2019
10.11	Second Modification to Amended and Restated Loan and Security Agreement, effective as of December 10, 2019 by and among Lifeway Foods, Inc., Fresh Made, Inc., The Lifeway Kefir Shop, LLC, Lifeway Wisconsin, Inc., and CIBC Bank USA, as Lender.	8-K		10.1	12/10/2019
14	Code of Conduct and Ethics	10-K	12/31/13	14	4/2/2014
21	List of Subsidiaries of the Registrant				
23.1	Consent of Mayer Hoffman McCann P.C.				
31.1	Rule 13a-14(a)/15d-14(a) Certification of Julie Smolyansky				
31.2	Rule 13a-14(a)/15d-14(a) Certification of Eric Hanson				
32.1	Section 1350 Certification of Julie Smolyansky				
32.2	Section 1350 Certification of Eric Hanson				
99.1	Press release dated April 14, 2020 reporting the Company's financial results for year ended December 31, 2019.				
101	Interactive Data Files				

ITEM 16. FORM 10-K SUMMARY.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: April 14, 2020	By:/s/ Julie Smolyansky Julie Smolyansky Chief Executive Officer, President, and Director
Date: April 14, 2020	By:/s/ Eric Hanson Eric Hanson Chief Financial & Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: April 14, 2020	/s/ Julie Smolyansky Julie Smolyansky Chief Executive Officer, President, and Director (Principal Executive Officer)
Date: April 14, 2020	/s/ Edward Smolyansky Edward Smolyansky Chief Operating Officer and Director
Date: April 14, 2020	/s/ Eric Hanson Eric Hanson Chief Financial & Accounting Officer (Principal Financial & Accounting Officer)
Date: April 14, 2020	/s/ Ludmila Smolyansky Ludmila Smolyansky Chairperson of the Board of Directors
Date: April 14, 2020	/s/ Jason Scher Jason Scher Lead Independent Director
Date: April 14, 2020	/s/ Pol Sikar Pol Sikar Director
Date: April 14, 2020	/s/ Renzo Bernardi Renzo Bernardi Director
Date: April 14, 2020	/s/ Jody Levy Jody Levy Director

Exhibit 21

Subsidiaries of Lifeway Foods, Inc.

Below is a list of the subsidiaries of Lifeway Foods, Inc. All of the voting stock of each subsidiary is 100% owned directly by Lifeway Foods, Inc.

Name of Subsidiary	Jurisdiction of Incorporation or Organization
Fresh Made, Inc.	Pennsylvania
Lifeway Foods Canada, Inc.	Quebec, Canada

Lifeway Foods Europe	Ireland
The Lifeway Kefir Shop, LLC	Illinois
Lifeway Wisconsin, Inc.	Illinois

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-210463) of our report dated April 14, 2020, with respect to the consolidated financial statements of Lifeway Foods, Inc. and Subsidiaries as of December 31, 2019 and 2018 and for each of the years then ended, and our report dated April 14, 2020, relating to the effectiveness of internal controls over financial reporting as of December 31, 2019 of Lifeway Foods, Inc. included in the Annual Report on Form 10-K of Lifeway Foods, Inc. as of and for the year ended December 31, 2019.

/s/ Mayer Hoffman McCann P.C.

Chicago, Illinois
April 14, 2020

Exhibit 31.1

SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

I, Julie Smolyansky, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: April 14, 2020 By: /s/ Julie Smolyansky
Julie Smolyansky
Chief Executive Officer, President and Director
(Principal Executive Officer)

Exhibit 31.2

SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

I, Eric Hanson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: April 14, 2020 By: /s/ Eric Hanson
Eric Hanson
Chief Financial & Accounting Officer

Exhibit 32.1

SECTION 906 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

In connection with the Annual Report on Form 10-K of Lifeway Foods, Inc. (the "Company") for the period ended December 31, 2019 as filed with the SEC (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to her knowledge:

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

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

Date: April 14, 2020 By: /s/ Julie Smolyansky
Julie Smolyansky
Chief Executive Officer, President and Director
(Principal Executive Officer)

Exhibit 32.2

SECTION 906 CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

In connection with the Annual Report on Form 10-K/A of Lifeway Foods, Inc. (the “Company”) for the period ended December 31, 2019 as filed with the SEC (the “Report”), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

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

Date: April 14, 2020 By: /s/ Eric Hanson
Eric Hanson
Chief Financial & Accounting Officer

Exhibit 99.1

The picture can't be displayed.

Lifeway Foods, Inc. Increases Production to Support Accelerated Demand and Local Communities during COVID-19 Health Crisis

Expects First Quarter 2020 Preliminary, Unaudited Net Sales to Increase 2% to 4% from 1Q19 with the Month of March Net Sales Up Over 13% Year-over-Year

Delivers Second Consecutive Sequential Quarter of Sales Improvement with Strong Industry Tailwinds

Morton Grove, IL — April 14, 2020—Lifeway Foods, Inc. (Nasdaq: LWAY) (“Lifeway” or “the Company”), the leading U.S. supplier of kefir and fermented probiotic products to support the microbiome, today provided a business update in conjunction with reporting its fourth quarter and full year results for the period ended December 31, 2019 which was filed today with the Securities and Exchange Commission. Lifeway also announced that it expects preliminary, unaudited first quarter 2020 net sales to increase 2% to 4% as compared to the first quarter of 2019 with the month of March net sales up 13% year-over-year.

“We are pleased with our solid end to the year and strong start to 2020. Our team’s execution of our long-term strategic plan, Lifeway 2.0, is demonstrated by the sequential improvement in our sales trends in the fourth quarter resulting in our ability to reinvigorate growth which has accelerated into the first quarter of 2020 with net sales expected to be up 2% to 4% year-over-year including a really strong March monthly sales” commented Julie Smolyansky, Lifeway’s Chief Executive Officer. “Our current focus is the health, safety and wellbeing of our employees, as well as local and national communities during this time of unprecedented uncertainty and crisis related to COVID-19. At Lifeway, we are committed to supporting the accelerated demand for retail sales and community aid donations through an increase in our kefir production, and we are instituting the Lifeway Heroes Commitment Award, an hourly bonus for employees in our production and warehouse facilities in recognition of their incredible work. In addition, Lifeway is providing donations to Singer and songwriter Jewel’s Inspiring Children, Mount Sinai Hospital, Meals on Wheels Chicago, Food Bank for New York City and other local and national food pantries to help ensure first responders and those in need have access to microbiome-supporting products and are able to nourish themselves and their families. To date, Lifeway has donated over 45,000 servings of kefir, and we plan to continue providing additional product for as long as needed."

Ms. Smolyansky continued, "During this time of shelter-in-place as a result of COVID-19, 40% of Americans are more proactively taking care of their physical and emotional health and 17% are consuming more immunity and overall self-care supporting products such as probiotics and vitamins, according to IRI. In the first quarter of 2020, we have increased our production to meet accelerated demand at both grocery retail and online grocery as more consumers focus on self-care and nutrition to aid in their overall health and wellness needs. Kefir has emerged as a top 2020 consumer choice for gut health and it continues to rise with people becoming increasingly educated on the importance of a healthy, functioning gut and how it can determine consumers overall well-being. Based on a 2017 study from The Nutrition Society the health benefits of fermented milk drinks such as kefir included improved digestion, anti-inflammatory effects and the stimulation of antioxidants which can aid disease prevention. We believe Lifeway is well positioned for long-term growth and value creation with strong industry tailwinds to fuel our business as we increasingly serve consumers looking for more self-care, immunity and gut health options during this time of global health crisis and uncertainty."

Lifeway expects to continue to benefit in 2020 from strong industry tailwinds including lower dairy and oil prices as well as the following highlights:

- According to IRI:
    - Dairy is up 11% on a dollar basis for the Total U.S. MULO for the year-to-date 2020 period ended March 22, 2020
    - Social Chatter is increasingly focused on self-care with a 438% Surge vs. the average in mentions as U.S. COVID-19 confirmed cases increase
    - In the 52 weeks ended March 8, 2020, the total supplement market was up more than 6%. For the one-week period ended March 8, 2020, during which coronavirus concerns in the U.S. began to scale, sales growth for overall dietary supplements skyrocketed to more than 35%

- According to Mordor Intelligence:
    - For fermented dairy, including kefir, a 9% compound annual growth rate is expected between 2019 and 2029
- According to the New York Times analysis of data from Earnest Research:
    - In a 7-day period that ended on March 18, grocery sales were up 79% from the previous year
    - Between March 26 and April 1, sales were up 7%. Among the biggest winners: online grocery delivery services and meal kit companies

Conference Call

A pre-recorded conference call and webcast with Julie Smolyansky discussing these results with additional comments and details will be available today at 5:00 p.m. ET. The webcast will be available over the Internet through the "Investor Relations" section of the Company's website at https://lifewaykefir.com/webinars-reports/. An audio replay will be available through April 28, 2020. North American listeners may dial 844-512-2921 and international listeners may dial 412-317-6671. The passcode is 1139162.

About Lifeway Foods, Inc.

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

Forward-Looking Statements

This release (and oral statements made regarding the subjects of this release) contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 regarding, among other things, future operating and financial performance, product development, market position, business strategy and objectives. These statements use words, and variations of words, such as "continue," "build," "future," "increase," "drive," "believe," "look," "ahead," "confident," "deliver," "outlook," "expect," and "predict." Other examples of forward looking statements may include, but are not limited to, (i) statements of Company plans and objectives, including the introduction of new products, or estimates or predictions of actions by customers or suppliers, (ii) statements of future economic performance, and (III) statements of assumptions underlying other statements and statements about Lifeway or its business. You are cautioned not to rely on these forward-looking statements. These statements are based on current expectations of future events and thus are inherently subject to uncertainty. If underlying assumptions prove inaccurate or known or unknown risks or uncertainties materialize, actual results could vary materially from Lifeway's expectations and projections. These risks, uncertainties, and other factors include: price competition; the decisions of customers or consumers; the actions of competitors; changes in the pricing of commodities; the effects of government regulation; possible delays in the introduction of new products; and customer acceptance of products and services. A further list and description of these risks, uncertainties, and other factors can be found in Lifeway's Annual Report on Form 10-K for the full year ended December 31, 2019, and the Company's subsequent filings with the SEC. Copies of these filings are available online at https://www.sec.gov, http://lifewaykefir.com/investor-relations/, or on request from Lifeway. Information in this release is as of the dates and time periods indicated herein, and Lifeway does not undertake to update any of the information contained in these materials, except as required by law. Accordingly, YOU SHOULD NOT RELY ON THE ACCURACY OF ANY OF THE STATEMENTS OR OTHER INFORMATION CONTAINED IN ANY ARCHIVED PRESS RELEASE.

Contact:

Lifeway Foods, Inc.

Phone: 847-967-1010
Email: info@lifeway.net

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2019 and 2018
(In thousands)

	December 31, 2019	December 31, 2018
Current assets		
Cash and cash equivalents	$ 3,836	$ 2,998
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of $1,100 and $1,220 at December 31, 2019 and 2018, respectively	6,692	6,276
Inventories, net	6,392	5,817
Prepaid expenses and other current assets	1,598	1,077
Refundable income taxes	681	2,748
Total current assets	**19,199**	**18,916**
Property, plant and equipment, net	**22,274**	**24,573**
Operating lease right-of use asset	**738**	–
Intangible assets		
Goodwill and indefinite-lived intangibles	12,824	12,824
Other intangible assets, net	152	344
Total intangible assets	**12,976**	**13,168**
Other Assets	1,800	150
Total assets	**$ 56,987**	**$ 56,807**
Current liabilities		
Accounts payable	$ 5,282	$ 4,570
Accrued expenses	4,087	2,777
Accrued income taxes	154	106
Total current liabilities	**9,523**	**7,453**
Line of credit	**2,745**	**5,995**
Operating lease liabilities	**488**	**–**
Deferred income taxes, net	**922**	**390**
Other long-term liabilities	**58**	**564**
Total liabilities	**13,736**	**14,402**
Stockholders’ equity		
Preferred stock, no par value; 2,500 shares authorized; no shares issued or outstanding at 2019 and 2018	–	–
Common stock, no par value; 40,000 shares authorized; 17,274 shares issued; 15,710 and 15,814 shares outstanding at 2019 and 2018	6,509	6,509
Paid-in capital	2,380	2,303
Treasury stock, at cost	(12,601)	(12,970)
Retained earnings	46,963	46,563
Total stockholders’ equity	**43,251**	**42,405**
Total liabilities and stockholders’ equity	**$ 56,987**	**$ 56,807**

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Years Ended December 31, 2019 and 2018
(In thousands, except per share data)

	2019	2018
Net sales	**$ 93,662**	**$ 103,350**
Cost of goods sold	68,367	74,646
Depreciation expense	3,146	2,846
Total cost of goods sold	71,513	77,492
Gross profit	**22,149**	**25,858**
Selling expenses	11,062	13,477
General and administrative	12,828	13,616
Goodwill and intangible asset impairment	–	1,244
Amortization expense	192	631
Total operating expenses	**24,082**	**28,968**
Loss from operations	**(1,933)**	**(3,110)**
Other income (expense):		
Interest expense	(249)	(271)
Fair value gain on investments	1,731	–
Realized gain on investments, net	1,413	–
Gain on sale of property and equipment	189	54
Other income	84	16
Total other income (expense)	3,168	(201)
Income (loss) before provision for income taxes	**1,235**	**(3,311)**
Provision (benefit) for income taxes	782	(225)
Net income (loss)	**$ 453**	**$ (3,086)**
Basic loss per common share	$ 0.03	$ (0.19)
Diluted loss per common share	$ 0.03	$ (0.19)
Weighted average number of shares outstanding - Basic	15,748	15,872
Weighted average number of shares outstanding - Diluted	15,804	16,319

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018
(In thousands)

	2019	2018
Cash flows from operating activities:		
Net income (loss)	**$ 453**	**$ (3,086)**
Adjustments to reconcile net income (loss) to operating cash flow:		
Depreciation and amortization	3,338	3,477
Non-cash interest expense	23	14
Non-cash rent expense	(17)	–
Bad debt expense	7	21
Deferred Revenue	(97)	(97)
Reserve for inventory obsolescence	(52)	558
Stock-based compensation	838	802
Deferred income taxes	533	(451)
Fair value gain on investment	(1,731)	–
Net gain on sale of investment	(1,413)	–
Gain on sale of property and equipment	(189)	(54)
Goodwill impairment	–	1,244
(Increase) decrease in operating assets:		
Accounts receivable	(423)	2,379
Inventories	(523)	1,322
Refundable income taxes	2,067	(401)
Prepaid expenses and other current assets	(526)	(78)
Increase (decrease) in operating liabilities:		
Accounts payable	710	(2,278)
Accrued expenses	783	(858)
Operating lease asset amortization/liability	(17)	–
Accrued income taxes	47	(97)
Net cash provided by operating activities	**3,811**	**2,417**
Cash flows from investing activities:		
Purchases of investments	(15)	(500)
Proceeds from sale of investments	1,509	500
Purchases of property and equipment	(1,178)	(2,824)
Proceeds from sale of property and equipment	522	104
Net cash used in investing activities	**838**	**(2,720)**
Cash flows from financing activities:		
Purchase of treasury stock	(538)	(1,379)
Borrowings under revolving credit facility	–	6,050
Repayment of line of credit	(3,273)	–
Payment of deferred financing costs	–	(69)
Repayment of notes payable	–	(6,279)
Net cash used in financing activities	**(3,811)**	**(1,677)**
Net increase (decrease) in cash and cash equivalents	**838**	**(1,980)**
Cash and cash equivalents at the beginning of the period	2,998	4,978
Cash and cash equivalents at the end of the period	**$ 3,836**	**$ 2,998**

Supplemental cash flow information:				
Cash paid for income taxes, net of (refunds)	$	(1,865)	$	723
Cash paid for interest		259		261
Right-of-use assets and operating lease obligations recognized at ASU 2016-02 transition		997		–
Right-of-use assets and operating lease obligations recognized after ASU 2016-02 transition		305		–