

LIFEWAY FOODS INC
Form 10-Q
November 15, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2010

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

For the transition period from _____ to _____

Commission File Number: 000-17363

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

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

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

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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

Edgar Filing: LIFEWAY FOODS INC - Form 10-Q

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of September 30, 2010, the issuer had 16,597,749 shares of common stock, no par value, outstanding.

LIFEWAY FOODS, INC.
CONTENTS TO FORM 10-Q

PART I —	FINANCIAL INFORMATION	Page(s)
ITEM 1.	FINANCIAL STATEMENTS.	3
	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.	7
ITEM 2.	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.	20
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.	24
ITEM 4.	CONTROLS AND PROCEDURES.	24
PART II —	OTHER INFORMATION	
ITEM 1.	LEGAL PROCEEDINGS.	25
ITEM 1A.	RISK FACTORS.	25
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.	25
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES.	25
ITEM 5.	OTHER INFORMATION.	25
ITEM 6.	EXHIBITS.	25
SIGNATURES		26
EXHIBIT INDEX		27

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
 Consolidated Statements of Financial Condition
 September 30, 2010 and 2009 (Unaudited) and December 31, 2009

	(Unaudited)		
	September 30,	2009	December 31,
	2010	2009	2009
ASSETS			
Current assets			
Cash and cash equivalents	\$ 849,657	\$ 804,387	\$ 630,407
Investments	3,488,502	4,321,337	4,392,125
Certificates of deposits in financial institutions	450,000	629,120	652,005
Inventories	4,509,153	4,106,631	3,296,976
Accounts receivable, net of allowance for doubtful accounts and discounts	7,795,659	7,311,856	5,999,738
Prepaid expenses and other current assets	37,120	45,565	40,697
Other receivables	62,290	37,715	49,758
Deferred income taxes	277,393	338,070	251,456
Refundable income taxes	–	26,276	1,308,978
Total current assets	17,469,774	17,620,957	16,622,140
Property and equipment, net	14,930,309	13,812,039	14,282,182
Intangible assets			
Goodwill and other non amortizable brand asset	13,806,091	13,806,091	13,806,091
Other intangible assets, net of accumulated amortization of \$2,125,489 and \$1,429,509 at September 30, 2010 and 2009 and \$1,598,208 at December 31, 2009	5,732,149	6,428,129	6,259,430
Total intangible assets	19,538,240	20,234,220	20,065,521
Other assets	500,000	500,000	500,000
Total assets	\$ 52,438,323	\$ 52,167,216	\$ 51,469,843
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Checks written in excess of bank balances	\$ 1,002,101	\$ –	\$ 342,976
Current maturities of notes payable	3,608,978	6,231,204	4,842,315
Accounts payable	2,708,534	2,180,297	2,764,000
Accrued expenses	739,982	683,685	614,344
Accrued income tax	567,926	–	–

Edgar Filing: LIFEWAY FOODS INC - Form 10-Q

Total current liabilities	8,627,521	9,095,186	8,563,635
Notes payable	6,197,778	7,400,573	6,890,214
Deferred income taxes	3,120,432	3,662,273	3,444,664
Total liabilities	17,945,731	20,158,032	18,898,513
Stockholders' equity			
Common stock, no par value; 20,000,000 shares authorized; 17,273,776 shares issued; 16,597,749 shares outstanding at September 30, 2010; 17,273,776 shares issued: 16,775,930 shares outstanding at September 30, 2009; 17,273,776 shares issued; 16,778,555 shares outstanding at December 31, 2009			
	6,509,267	6,509,267	6,509,267
Paid-in-capital	2,018,727	1,939,316	1,965,786
Treasury stock, at cost	(5,897,308)	(3,851,462)	(3,846,773)
Retained earnings	31,811,438	27,833,816	27,953,409
Accumulated other comprehensive income (loss), net of taxes	50,468	(421,753)	(10,359)
Total stockholders' equity	34,492,592	32,009,184	32,571,330
Total liabilities and stockholders' equity	\$ 52,438,323	\$ 52,167,216	\$ 51,469,843

See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income
For the Three and Nine Months Ended September 30, 2010 and 2009 (Unaudited)
and for the Year Ended December 31, 2009

	(Unaudited)		(Unaudited)		Year Ended December 31, 2009
	Three Months Ended		Nine Months Ended		
	September 30, 2010	2009	September 30, 2010	2009	
Sales	15,908,784	15,433,876	47,419,499	43,649,383	58,115,878
Cost of goods sold	9,837,171	8,892,088	27,730,041	24,994,778	36,083,553
Depreciation expense	349,017	288,613	1,033,612	859,044	1,134,404
Total cost of goods sold	10,186,188	9,180,701	28,763,653	25,853,822	37,217,957
Gross profit	5,722,596	6,253,175	18,655,846	17,795,561	20,897,921
Selling expenses	2,308,740	1,231,216	7,019,517	3,176,162	5,987,917
General and administrative	1,329,803	1,613,828	4,298,024	5,173,724	5,294,550
Amortization expense	175,760	168,699	527,280	508,086	676,786
Total Operating Expenses	3,814,303	3,013,743	11,844,821	8,857,972	11,959,253
Income from operations	1,908,293	3,239,432	6,811,025	8,937,589	8,938,668
Other income (expense):					
Interest and dividend income	97,697	34,180	205,381	144,899	199,047
Rental Income	4,050	12,047	8,085	33,340	35,240
Interest expense	(86,167)	(99,864)	(262,274)	(364,337)	(442,703)
Loss on Disposition of Equipment	-	-	-	(2,825)	(2,826)
Gain (loss) on sale of marketable securities, net	(1,687)	(178,143)	53,097	(274,296)	(278,474)
Total other income (expense)	13,893	(231,780)	4,289	(463,219)	(489,716)
Income before provision for income taxes	1,922,186	3,007,652	6,815,314	8,474,370	8,448,952
Provision for income taxes	1,017,349	1,636,911	2,957,285	3,024,261	2,879,250
Net income	\$904,837	\$1,370,741	\$3,858,029	\$5,450,109	\$5,569,702
Basic and diluted earnings per common share	0.05	0.08	0.23	0.32	0.33
Weighted average number of shares outstanding	16,625,414	16,798,623	16,695,782	16,799,134	16,798,164

COMPREHENSIVE INCOME

Net income	\$904,837	\$1,370,741	\$3,858,029	\$5,450,109	\$5,569,702
Other comprehensive income (loss), net of tax:					
Unrealized gains (losses) on investments (net of tax)	101,334	114,628	91,995	326,060	325,086
Less reclassification adjustment for (gains) losses included in net income (net of taxes)	990	104,609	(31,168)	161,071	163,464
Comprehensive income	\$1,007,161	\$1,589,978	\$3,918,856	\$5,937,240	\$6,058,252

See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity
 For the Nine Months Ended September 30, 2010 and 2009 (Unaudited)
 and for the Year Ended December 31, 2009

Common Stock, No Par Value		# of Shares		Common Stock	Paid In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss) Net of Tax	To
20,000,000 Shares Authorized # of Shares	# of Shares	Treasury	of Shares						
Balances at December 31, 2008	17,273,776	16,724,467	549,309	\$6,509,267	\$1,202,009	\$(3,302,025)	\$22,383,707	\$(498,909)	\$26,29
Redemption of stock	—								