

LIFEWAY FOODS INC
Form 10-Q
November 14, 2008

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, 2008

- 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
(State or Other Jurisdiction of Incorporation
or Organization)

36-3442829
(I.R.S. Employer Identification No.)

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

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

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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

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. (Check one):

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, 2008, the issuer had 16,730,226 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	8
ITEM 2.	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	21
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	24
ITEM 4T.	CONTROLS AND PROCEDURES	24
PART II —	OTHER INFORMATION	24
ITEM 1.	LEGAL PROCEEDINGS	24
ITEM 1A.	RISK FACTORS	24
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	24
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	24
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	24
ITEM 5.	OTHER INFORMATION	25
ITEM 6.	EXHIBITS	25
SIGNATURES		26
EXHIBIT INDEX		27

LIFEWAY FOODS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 and 2007

AND DECEMBER 31, 2007

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LIFEWAY FOODS, INC. AND SUBSIDIARIES
 Consolidated Statements of Financial Condition
 September 30, 2008 and 2007 (Unaudited) and December 31, 2007

	(Unaudited)		
	September 30,		December 31,
	2008	2007	2007
ASSETS			
Current assets			
Cash and cash equivalents	\$ 530,866	\$ 1,624,566	\$ 595,885
Marketable securities	5,668,940	6,557,841	6,989,474
Inventories	4,207,094	4,061,189	3,506,554
Accounts receivable, net of allowance for doubtful accounts of \$35,011 and \$39,460 at September 30, 2008 and 2007 and \$39,460 at December 31, 2007	5,161,414	4,845,956	4,209,662
Prepaid expenses and other current assets	20,864	13,051	21,253
Other receivables	28,918	45,810	43,111
Deferred income taxes	909,479	225,803	311,960
Refundable income taxes		125,763	240,880
Total current assets	16,527,575	17,499,979	15,918,779
Property and equipment, net	10,989,500	9,176,479	9,678,948
Intangible assets			
Goodwill	5,414,858	3,952,425	5,414,858
Other intangible assets, net of accumulated amortization of \$841,561 and \$520,979 at September 30, 2008 and 2007 and \$601,976 at December 31, 2007	3,016,077	3,342,517	3,255,662
Total intangible assets	8,430,935	7,294,942	8,670,520
Other assets	500,000	500,000	500,000
Total assets	\$ 36,448,010	\$ 34,471,400	\$ 34,768,247
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Current maturities of notes payable	\$ 1,125,608	\$ 1,434,903	\$ 1,136,126
Accounts payable	2,361,318	1,865,041	1,594,330
Accrued expenses	532,662	441,068	414,039
Margin payable	428,951	—	—
Accrued income taxes	308,260	—	—
Total current liabilities	4,756,799	3,741,012	3,144,495
Notes payable	3,219,338	4,424,266	4,096,797
Deferred income taxes	1,615,421	510,000	1,712,795

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Stockholders' equity

Common stock, no par value; 20,000,000 shares authorized; 17,273,776 shares issued; 16,730,226 shares outstanding at September 30, 2008; 17,273,776 shares issued; 16,825,626 shares outstanding at September 30, 2007; and 17,273,776 shares issued; 16,897,726 shares outstanding at December 31, 2007

	6,509,267	6,509,267	6,509,267
Paid-in-capital	1,175,539	1,103,630	1,120,669
Treasury stock, at cost	(3,207,213)	(2,081,915)	(2,078,165)
Retained earnings	23,126,672	20,318,323	20,471,432
Accumulated other comprehensive income (loss), net of taxes	(747,813)	(53,183)	(209,043)
Total stockholders' equity	26,856,452	25,796,122	25,814,160
Total liabilities and stockholders' equity	\$ 36,448,010	\$ 34,471,400	\$ 34,768,247

See accompanying notes to financial statements

- 4 -

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LIFEWAY FOODS, INC. AND SUBSIDIARIES
 Consolidated Statements of Income and Comprehensive Income
 For the Three and Nine Months Ended September 30, 2008 and 2007 (Unaudited)
 and the Year Ended December 31, 2007

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,		Year Ended December 31,
	2008	2007	2008	2007	2007
Sales	\$ 11,240,282	\$ 9,817,478	\$ 33,885,912	\$ 28,554,984	\$ 38,729,156
Cost of goods sold	7,505,794	6,901,471	22,403,574	17,885,885	25,582,981
Depreciation expense	197,366	195,348	581,920	546,945	726,647
Total cost of goods sold	7,703,160	7,096,819	22,985,494	18,432,830	26,309,628
Gross profit	3,537,122	2,720,659	10,900,418	10,122,154	12,419,528
Selling Expenses	957,978	1,174,140	3,171,269	2,856,483	3,744,388
General and Administrative	1,032,043	916,893	3,109,506	2,879,582	3,914,825
Amortization expense	79,862	48,583	239,585	242,269	323,266
Total Operating Expenses	2,069,883	2,139,616	6,520,360	5,978,334	7,982,479
Income from operations	1,467,239	581,043	4,380,058	4,143,820	4,437,049
Other income (expense):					
Interest and dividend income	95,042	84,918	261,037	249,082	350,286
Rental Income	13,647	9,731	36,940	27,912	48,305
Interest expense	(71,928)	(102,197)	(226,851)	(321,009)	(410,180)
Impairment of marketable securities	(270,908)	—	(270,908)		
Gain (loss) on sale of marketable securities, net	(110,259)	209,207	(146,404)	663,538	539,739
Total other income (Expense)	(344,406)	201,659	(346,186)	619,523	528,150
Income before provision for income taxes	1,122,833	782,702	4,033,872	4,763,343	4,965,199
Provision for income taxes	267,917	314,508	1,378,632	1,763,792	1,812,539
Net income	\$ 854,916	\$ 468,194	\$ 2,655,240	\$ 2,999,551	\$ 3,152,660
	0.05	0.03	0.16	0.18	0.19

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Basic and diluted earnings
per common share

Weighted average number of shares outstanding	16,730,526	16,824,911	16,772,280	16,865,390	16,855,611
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COMPREHENSIVE
INCOME

Net income	\$ 854,916	\$ 468,194	\$ 2,655,240	\$ 2,999,551	\$ 3,152,660
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Other comprehensive
income (loss), net of tax:

Unrealized gains (losses) on marketable securities (net of tax benefits)	(480,045)	(57,187)	(895,641)	181,647	(47,091)
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Less reclassification adjustment for (gains) losses included in net income (net of taxes)	64,746	(123,372)	85,963	(388,600)	(315,721)
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Comprehensive income	\$ 439,617	\$ 287,635	\$ 1,845,562	\$ 2,792,598	\$ 2,789,848
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See accompanying notes to financial statements

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LIFEWAY FOODS, INC. AND SUBSIDIARIES
 Consolidated Statements of Changes in Stockholders' Equity
 For the Nine Months Ended September 30, 2008 (Unaudited)
 and the Year Ended December 31, 2007

	Common Stock, No Par Value		# of Shares of Treasury Stock	Common Stock	Paid In Capital	Treasury Stock	Retained Earnings	Accumulated	
	20,000,000 Shares Authorized							Other Comprehensive Income (Loss), Net of Tax	T
	# of Shares Issued	# of Shares Outstanding							
Balances at December 31, 2006	17,273,776	16,897,826	375,950	6,509,267	1,080,911	(1,334,313)	17,318,772	153,770	23,7
Redemption of stock	—	(75,000)	75,000	—	—	(752,603)	—	—	(7
Issuance of treasury stock for compensation	—	4,900	(4,900)	—	39,758	8,751	—	—	—
Other comprehensive income (loss): Unrealized losses on securities, net of taxes and reclassification adjustment	—	—	—	—	—	—	—	—(362,813)	(3
Net income for the year ended December 31, 2007	—	—	—	—	—	—	3,152,660	—	3,
Balances at December 31, 2007	17,273,776	16,827,726	446,050	6,509,267	1,120,669	(2,078,165)	20,471,432	(209,043)	25,
Redemption of stock	—	(100,000)	100,000	—	—	(1,139,987)	—	—	(1,

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Issuance of treasury stock for compensation	—	2,500	(2,500)	—	54,870	10,939	—	—
Other comprehensive income (loss):								
Unrealized gains on securities, net of taxes and reclassification adjustment	—	—	—	—	—	—	—(538,770)	(538,770)
Net income for the nine months ended September 30, 2008	—	—	—	—	—	—	2,655,240	2,655,240