

LIFEWAY FOODS INC
Form 10-Q
August 16, 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: June 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

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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 June 30, 2010, the issuer had 16,657,478 shares of common stock, no par value, outstanding.

LIFEWAY FOODS, INC.

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LIFEWAY FOODS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009
AND DECEMBER 31, 2009

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition

June 30, 2010 and 2009 (Unaudited) and December 31, 2009

		(Unaudited) June 30,	December 31,
	2010	2009	2009
ASSETS			
Current assets			
Cash and cash equivalents	\$858,490	\$582,766	\$630,407
Investments	3,411,804	4,659,161	4,392,125
Certificates of deposits in financial institutions	550,000	—	652,005
Inventories	4,154,719	3,817,195	3,296,976
Accounts receivable, net of allowance for doubtful accounts and discounts	7,780,512	6,064,801	5,999,738
Prepaid expenses and other current assets	70,130	55,669	40,697
Other receivables	142,389	65,730	49,758
Deferred income taxes	389,249	638,372	251,456
Refundable income taxes	—	778,125	1,308,978
Total current assets	17,357,293	16,661,819	16,622,140
Property and equipment, net	14,890,327	13,793,929	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 \$1,949,729 and \$1,260,809 at June 30, 2010 and 2009 and \$1,598,208 at December 31, 2009	5,907,909	6,596,829	6,259,430
Total intangible assets	19,714,000	20,402,920	20,065,521
Other assets	500,000	500,000	500,000
Total assets	\$52,461,620	\$51,358,668	\$51,469,843
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Checks written in excess of bank balances	\$847,374	\$—	\$342,976
Current maturities of notes payable	4,431,873	6,219,788	4,842,315
Accounts payable	2,259,236	2,024,313	2,764,000
Accrued expenses	531,553	617,662	614,344
Accrued income tax	604,323	—	—
Total current liabilities	8,674,359	8,861,763	8,563,635
Notes payable	6,397,780	7,907,847	6,890,214

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Deferred income taxes	3,262,795	3,593,740	3,444,664
Total liabilities	18,334,934	20,363,350	18,898,513
Stockholders' equity			
Common stock, no par value; 20,000,000 shares authorized; 17,273,776 shares issued; 16,657,478 shares outstanding at June 30, 2010; 17,273,776 shares issued; 16,812,955 shares outstanding at June 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	1,912,845	1,965,786
Treasury stock, at cost	(5,256,054)	(3,353,490)	(3,846,773)
Retained earnings	30,906,602	26,463,077	27,953,409
Accumulated other comprehensive loss, net of taxes	(51,856)	(536,381)	(10,359)
Total stockholders' equity	34,126,686	30,995,318	32,571,330
Total liabilities and stockholders' equity	\$52,461,620	\$51,358,668	\$51,469,843

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LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income

For the Three and Six Months Ended June 30, 2010 and 2009 (Unaudited)

and for the Year Ended December 31, 2009

	(Unaudited)		(Unaudited)		Year Ended December 31, 2009
	Three Months Ended June 30,		Six Months Ended June 30,		
	2010	2009	2010	2009	
Sales	15,546,556	14,479,429	31,510,715	28,215,509	58,115,878
Cost of goods sold	9,273,872	7,978,110	17,892,871	16,102,691	36,083,553
Depreciation expense	281,220	353,654	684,595	570,428	1,134,404
Total cost of goods sold	9,555,092	8,331,764	18,577,466	16,673,119	37,217,957
Gross profit	5,991,464	6,147,665	12,933,249	11,542,390	20,897,921
Selling expenses	2,183,304	1,386,815	4,710,777	2,694,740	5,987,917
General and administrative	1,478,062	1,437,505	2,968,219	2,810,103	5,294,550
Amortization expense	175,761	168,698	351,521	339,388	676,786
Total Operating Expenses	3,837,127	2,993,018	8,030,517	5,844,231	11,959,253
Income from operations	2,154,337	3,154,647	4,902,732	5,698,159	8,938,668
Other income (expense):					
Interest and dividend income	53,176	48,506	107,684	110,717	199,047
Rental Income	2,800	11,947	4,035	21,294	35,240
Interest expense	(80,164)	(110,090)	(176,106)	(264,473)	(442,703)
Loss on Disposition of Equipment	—	(2,825)	—	(2,825)	(2,826)
Gain (loss) on sale of marketable securities, net	84,043	53,638	54,784	(96,152)	(278,474)
Total other income (expense)	59,855	1,176	(9,603)	(231,439)	(489,716)
Income before provision for income taxes	2,214,192	3,155,823	4,893,129	5,466,720	8,448,952
	1,029,688	623,918	1,939,936	1,387,350	2,879,250

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Provision for income taxes

Net income	\$1,184,504	\$2,531,905	\$2,953,193	\$4,079,370	\$5,569,702
Basic and diluted earnings per common share	0.07	0.15	0.18	0.24	0.33
Weighted average number of shares outstanding	16,701,539	16,823,691	16,731,549	16,823,691	16,798,164

COMPREHENSIVE INCOME

Net income	\$1,184,504	\$2,531,905	\$2,953,193	\$4,079,370	\$5,569,702
Other comprehensive income (loss), net of tax:					
Unrealized gains (losses) on investments (net of tax)	(55,842)	338,409	(9,339)	(93,913)	325,086
Less reclassification adjustment for (gains) losses included in net income (net of taxes)	(49,333)	(31,486)	(32,158)	56,441	163,464
Comprehensive income	\$1,079,329	\$2,838,828	\$2,911,696	\$4,041,898	\$6,058,252

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Six Months Ended June 30, 2010 and 2009 (Unaudited)
and for the Year Ended December 31, 2009

	Common Stock, No Par Value 20,000,000 Shares Authorized		# of Shares of	Common Stock	Paid In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax
	# of Shares Issued	# of Shares Outstanding	Treasury Stock					
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)
Redemption of stock	—	(87,991)	87,991	—	—	(905,607)	—	—
Issuance of treasury stock for compensation	—	13,132	(13,132)	—	119,039	25,597	—	—
Issuance of treasury stock for Fresh Made acquisition	—	128,947	(128,947)	—	644,738	335,262	—	—
Other comprehensive income (loss): Unrealized gains on securities, net of taxes and reclassification adjustment	—	—	—	—	—	—	—	488,550
Net income for the year ended December 31, 2009	—	—	—	—	—	—	5,569,702	—
Balances at December 31, 2009	17,273,776	16,778,555	495,221	\$6,509,267	\$1,965,786	\$(3,846,773)	\$27,953,409	\$(10,359)

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Balances at January 1, 2009	17,273,776	16,724,467	549,309	\$6,509,267	\$1,202,009	\$(3,302,025)	\$22,383,707	\$(498,909)
Redemption of stock	—	(48,341)	48,341	—	—	(402,947)	—	—
Issuance of treasury stock for compensation	—	7,882	(7,882)	—	66,098	16,220	—	—
Issuance of treasury stock for Fresh Made acquisition	—	128,947	(128,947)	—	644,738	335,262	—	—
Other comprehensive income (loss): Unrealized gains on securities, net of taxes and reclassification adjustment	—	—	—	—	—	—	—	(37,472)
Net income for the six months ended June 30, 2009	—	—	—	—	—	—	4,079,370	—
Balances at June 30, 2009	17,273,776	16,812,955	460,821	\$6,509,267	\$1,912,845	\$(3,353,490)	\$26,463,077	\$(536,381)
Balances at January 1, 2010	17,273,776	16,778,555	495,221	\$6,509,267	\$1,965,786	\$(3,846,773)	\$27,953,409	\$(10,359)
Redemption of stock	—	(129,841)	129,841	—	—	(1,418,657)	—	—
Issuance of treasury stock for compensation	—	8,764	(8,764)	—	52,941	9,376	—	—
Other comprehensive income (loss):	—	—	—	—	—	—	—	(41,497)

Unrealized
gains on
securities, net
of taxes and
reclassification
adjustment

Net income for
the six months
ended June 30,
2010

—	—	—	—	—	—	—	2,953,193	—
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Balances at
June 30, 2010

17,273,776	16,657,478	616,298	\$6,509,267	\$2,018,727	\$(5,256,054)	\$30,906,602	\$(51,856)
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LIFEWAY FOODS, INC. AND SUBSIDIARIES
 Consolidated Statements of Cash Flows
 For the Six Months Ended June 30, 2010 and 2009 (Unaudited)
 and for the Year Ended December 31, 2009

	(Unaudited)		December 31,
	2010	June 30, 2009	2009
Cash flows from operating activities:			
Net income	\$2,953,193	\$4,079,370	\$5,569,702
Adjustments to reconcile net income to net cash flows from operating activities, net of acquisition:			
Depreciation and amortization	1,036,116	909,816	1,811,190
(Gain) Loss on sale of investments, net	(54,784)	96,152	278,474
Loss on disposition of assets	—	2,825	2,826
Deferred income taxes	(290,465)	179,796	389,754
Treasury stock issued for compensation	62,317	82,318	144,636
Decrease in allowance for doubtful accounts	—	—	(75,000)
(Increase) decrease in operating assets:			
Accounts receivable	(1,780,774)	(752,978)	(612,915)
Other receivables	(92,631)	(25,416)	(7,758)
Inventories	(857,743)	(346,800)	173,419
Refundable income taxes	1,308,978	(435,205)	(475,635)