

LIFEWAY FOODS INC
Form 10QSB/A
May 15, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB/A
Amendment No. 1

(Mark One)

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

For the quarterly period ended September 30, 2006

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

For the transition period from _____ to _____

Commission file number: 0-17363

LIFEWAY FOODS, INC.

(Exact name of small business issuer as specified in its charter)

Illinois

36-3442829

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

6431 WEST OAKTON, MORTON GROVE, ILLINOIS 60053

(Address of principal executive offices)

(847) 967-1010

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or such shorter period that the issuer 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 shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of April 27, 2007, the issuer had 16,889,237 shares of common stock, no par value, outstanding.

Transitional Small Business Disclosure Format (Check one): Yes No

EXPLANATORY NOTE

This amendment to the Quarterly Report on Form 10-QSB for the quarter ended September 30, 2006 of Lifeway Foods, Inc. (as originally filed on November 20, 2006, the Form 10-QSB) is being filed in response to comments from the Staff of the Securities and Exchange Commission. The Form 10-QSB is restated herein in its entirety. The disclosures in this amendment continue to speak as of the date of the Form 10-QSB, and do not reflect events occurring after the filing of the Form 10-QSB. Accordingly, this Form 10-QSB/A should be read in conjunction with our other filings made with the Securities and Exchange Commission subsequent to the filing of the 10-QSB, including any amendments to those filings. The filing of this Form 10-QSB/A shall not be deemed an admission that the Form 10-QSB when made included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

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PART I FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****LIFEWAY FOODS, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2006 and 2005****AND DECEMBER 31, 2005****LIFEWAY FOODS, INC. AND SUBSIDIARIES****Consolidated Statements of Financial Condition****September 30, 2006 and 2005 (Unaudited) and December 31, 2005**

	(Unaudited)		
	September 30,		December, 31
	2006	2005	2005
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,242,306	\$ 4,191,755	\$ 4,354,081
Marketable securities	8,042,189	7,580,531	7,478,697
Inventories	2,628,508	1,301,066	1,716,999
Accounts receivable, net of allowance for doubtful accounts of \$45,000 and \$15,000 at September 30, 2006 and 2005 and \$35,000 at December 31, 2005	3,984,991	2,637,528	2,517,615
Prepaid expenses and other current assets	46,547	82,293	9,144
Other receivables	59,810	109,093	56,435
Deferred income taxes	108,154	46,881	142,772
Refundable income taxes	68,346	58,037	11,562
Total current assets	16,180,851	16,007,184	16,287,305
Property and equipment, net	8,574,181	7,755,352	7,751,446
Intangible assets			
Goodwill	7,321,114	75,800	75,800
Other intangible assets, net of accumulated amortization of \$142,010 and \$59,379 at September 30, 2006 and 2005 and \$92,432 at December 31, 2005	300,628	366,567	350,206
Total intangible assets	7,621,742	442,367	426,006
Total assets	\$ 32,376,774	\$ 24,204,903	\$ 24,464,757
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities			
Current maturities of notes payable	\$ 1,124,284	\$ 534,938	\$ 532,454
Accounts payable	1,251,720	648,881	426,253
Accrued expenses	270,990	453,895	355,011

Total current liabilities	2,646,994	1,637,714	1,313,718
Notes payable	6,191,521	2,919,656	2,903,349
Deferred income taxes	346,217	362,314	348,923
Stockholders equity			
Common stock	6,509,267	6,509,267	6,509,267
Paid-in-capital	1,080,911	82,738	90,725
Treasury stock, at cost	(1,235,542)	(1,034,172)	(1,024,659)
Retained earnings	16,807,609	13,715,660	14,422,948
Accumulated other comprehensive income (loss), net of taxes	29,797	11,726	(99,514)
Total stockholders equity	23,192,042	19,285,219	19,898,767
Total liabilities and stockholders equity	\$ 32,376,774	\$ 24,204,903	\$ 24,464,757

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, 2006 and 2005 (Unaudited)
and The Year Ended December 31, 2005

	(Unaudited)		(Unaudited)		Year Ended December 31, 2005
	Three Months Ended		Nine Months Ended		
	September 30 2006	September 30 2005	September 30 2006	September 30 2005	
Sales	\$ 7,456,649	\$ 5,194,648	\$ 19,827,069	\$ 14,924,076	\$ 20,131,654
Cost of goods sold	4,616,366	3,184,680	11,709,587	\$ 8,952,156	12,122,868
Gross profit	2,840,283	2,009,968	8,117,482	5,971,920	8,008,786
Operating Expenses:					
Selling expenses	890,563	655,913	2,323,155	1,754,511	2,354,348
General and administrative expenses	830,400	591,892	2,338,483	1,694,265	2,253,076
Total operating expenses	1,720,963	1,247,805	4,661,638	3,448,776	4,607,424
Income from operations	1,119,320	762,163	3,455,844	2,523,144	3,401,362
Other income (expense):					
Interest and dividend income	86,318	72,363	294,583	212,927	323,365
Interest expense	(96,557)	(36,877)	(209,983)	(51,195)	(100,762)
Gain (loss) on sale of marketable securities, net	89,260	162,446	277,674	324,433	445,327
Gain on marketable securities classified as trading	(2,370)	(681)	691	14,355	13,773
Total other income	76,651	197,251	362,965	500,520	681,703
Income before provision for income taxes	1,195,971	959,414	3,818,809	3,023,664	4,083,065
Provision for income taxes	456,012	400,464	1,434,148	1,182,479	1,534,592
Net income	\$ 739,959	\$ 558,950	\$ 2,384,661	\$ 1,841,185	\$ 2,548,473
Basic and diluted earnings per common share	0.04	0.03	0.14	0.11	0.15

Weighted average number of shares outstanding	16,860,139	16,786,768	16,855,889	16,815,536	16,808,992
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COMPREHENSIVE INCOME

Net income	\$ 739,959	\$ 558,950	\$ 2,384,661	\$ 1,841,185	\$ 2,548,473
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Other comprehensive income (loss), net of tax:

Unrealized gains (losses) on marketable securities (net of tax benefits)	102,436	103,458	312,717	82,988	42,708
Less reclassification adjustment for gains (losses) included in net income (net of taxes)	(73,184)	(96,369)	(183,406)	(190,442)	(261,402)

Comprehensive income	\$ 769,211	\$ 566,039	\$ 2,513,972	\$ 1,733,731	\$ 2,329,779
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See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholder's Equity
For the Nine Months Ended September 30, 2006 (Unaudited)
and the Year Ended December 31, 2005

	Common Stock, No Par Value		# of Shares of Treasury	Common Stock	Paid In Capital	Treasury Stock	Retained Earnings	Accumulated	Total
	20,000,000 Shares Authorized							Other Comprehensive Income (Loss), Net of Tax	
	# of Shares Issued	# of Shares Outstanding							
Balances at December 31, 2004	17,273,776	16,882,876	390,900	\$ 6,509,267	\$ 64,314	\$ (649,039)	\$ 11,874,475	\$ 119,180	\$ 17,918,197
Issuance of treasury stock		7,634	(7,634)		26,411	25,934			52,345
Redemption of stock		(100,000)	100,000			(401,554)			(401,554)
Other comprehensive income (loss):									
Unrealized gains on securities, net of taxes and classification adjustment								(218,694)	(218,694)
Net income for the year ended December 31, 2005							2,548,473		2,548,473
Balances at December 31, 2005	17,273,776	16,790,510	483,266	\$ 6,509,267	\$ 90,725	\$ (1,024,659)	\$ 14,422,948	\$ (99,514)	\$ 19,898,767
Issuance of treasury stock for compensation		4,666	(4,666)		13,311	15,855			29,166

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issuance of treasury stock for acquisition of Helios	202,650		976,875	323,125					1,300,000
redemption of stock	(89,682)	89,682		(549,863)					(549,863)
Other comprehensive income (loss): unrealized gains on securities, net of taxes and classification adjustment								129,311	129,311
Net income for the nine months ended September 30, 2006							2,384,661		2,384,661
Balances at September 30, 2006	17,273,776	16,908,144	568,282	\$ 6,509,267	\$ 1,080,911	\$(1,235,542)	\$ 16,807,609	\$ 29,797	\$ 23,192,042

See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2006 and 2005 (Unaudited)
and the Year Ended December 31, 2005

	Nine Months Ended September 30,		Year Ended December 31,
	2006	2005	2005
Cash flows from operating activities:			
Net income	\$ 2,384,661	\$ 1,841,185	\$ 2,548,473
Adjustments to reconcile net income to net cash flows from operating activities, net of acquisition:			
Depreciation and amortization	457,844	486,050	650,945
(Gain)Loss on sale of marketable securities, net	(277,674)	(324,433)	(445,327)
Gain on marketable securities classified as trading	(691)	(14,355)	(13,773)
Deferred income taxes	(58,932)	(69,220)	(100,236)
Treasury stock issued for services	29,166	34,845	52,345
Increase in allowance for doubtful accounts	10,000		
(Increase) decrease in operating assets:			
Accounts receivable	(1,197,722)	(613,492)	(493,579)
Other receivables	(3,375)	(36,956)	15,702
Inventories	(691,875)	(395,369)	(811,302)
Refundable income taxes	(56,784)	200,580	247,055
Prepaid expenses and other current assets	468	(75,033)	(1,884)
Increase (decrease) in operating liabilities:			
Accounts payable	427,705	7,230	(215,398)
Accrued expenses	(84,021)	258,354	159,470
Net cash provided by operating activities	938,770	1,299,386	1,592,491
Cash flows from investing activities:			
Purchases of marketable securities	(5,258,207)	(5,149,008)	(6,460,561)
Sale of marketable securities	5,193,235	4,466,196	5,810,391
Purchases of property and equipment	(500,118)	(4,772,181)	(4,916,811)
Acquisition of Helios, net of cash acquired	(2,514,679)		
Net cash used in investing activities	(3,079,769)	(5,454,993)	(5,566,981)
Cash flows from financing activities:			
Proceeds from note payable		3,000,000	3,000,000
Purchases of treasury stock	(549,863)	(401,554)	(401,554)
Repayment of notes payable	(420,913)	(17,731)	(36,522)
Loan costs		(6,638)	(6,638)
Net cash provided by (used in) financing activities	(970,776)	2,574,077	2,555,286
Net decrease in cash and cash equivalents	(3,111,775)	(1,581,530)	(1,419,204)

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Cash and cash equivalents at the beginning of the period	4,354,081	5,773,285	5,773,285
Cash and cash equivalents at the end of the period	\$ 1,242,306	\$ 4,191,755	\$ 4,354,081

See accompanying notes to financial statements

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LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006 and 2005
and December 31, 2005

Note 1 NATURE OF BUSINESS