

LIFEWAY FOODS INC
Form 10QSB
August 14, 2007

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

FORM 10-QSB

(Mark
One)

p **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2007

o **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
(State or other jurisdiction of incorporation
or organization)

36-3442829
(IRS Employer Identification No.)

6431 WEST OAKTON, MORTON GROVE, ILLINOIS 60053

(Address of principal executive offices)

(847) 967-1010

(Issuer's telephone number)

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 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 shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of August 3, 2007, the issuer had 16,823,526 shares of common stock, no par value, outstanding.

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

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PART I — FINANCIAL INFORMATION

LIFEWAY FOODS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

AND DECEMBER 31, 2006

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Condition
June 30, 2007 and 2006 (Unaudited) and December 31, 2006

	(Unaudited)		
	June 30,		December 31,
	2007	2006	2006
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents	\$ 1,014,433	\$ 3,621,803	\$ 1,547,812
Marketable securities	8,424,516	8,581,674	8,491,363
Inventories	3,510,597	2,320,818	2,522,196
Accounts receivable, net of allowance for doubtful accounts of \$39,460 and \$45,000 at June 30, 2007 and 2006 and \$80,000 at December 31, 2006	4,602,313	3,561,038	3,942,717
Prepaid expenses and other current assets	13,207	51,823	11,983
Other receivables	40,295	67,332	71,050
Deferred income taxes	73,168	116,544	32,234
Refundable income taxes	—	—	267,771
Total current assets	17,678,529	18,321,032	16,887,126
Property and equipment, net	8,819,215	7,762,286	8,580,716
Intangible assets			
Goodwill	3,952,425	75,800	3,952,425
Other intangible assets, net of accumulated amortization of \$439,982 and \$125,484 at June 30, 2007 and 2006 and \$278,710 December 31, 2006	3,423,514	317,154	3,578,928
Total intangible assets	7,375,939	392,954	7,531,353
Total assets	\$ 33,873,683	\$ 26,476,272	\$ 32,999,195
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
Current liabilities			
Current maturities of notes payable	\$ 1,130,316	\$ 542,089	\$ 1,131,336
Accounts payable	1,527,164	704,061	1,463,014
Accrued income tax	31,802	441,049	
Accrued expenses	386,749	382,543	480,101
Total current liabilities	3,076,031	2,069,742	3,074,451
Notes payable	4,843,282	2,849,504	5,746,718
Deferred income taxes	466,673	343,619	449,619
Stockholders' equity			
Common stock, no par value; 20,000,000 shares authorized; 17,273,766 shares issued; 16,889,237 shares outstanding at June 30, 2007; 17,273,776 shares issued;	6,509,267	6,509,267	6,509,267

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16,793,310 shares outstanding at June 30, 2006; and
 17,273,776 shares issued; 16,897,826 shares outstanding
 at December 31, 2006

Paid-in-capital	1,086,591	104,036	1,080,911
Treasury stock, at cost	(2,085,666)	(1,468,091)	(1,334,313)
Retained earnings	19,850,129	16,067,650	17,318,772
Accumulated other comprehensive income (loss), net of taxes	127,376	545	153,770
Total stockholders' equity	25,487,697	21,213,407	23,728,407
Total liabilities and stockholders' equity	\$ 33,873,683	\$ 26,476,272	\$ 32,999,195

See accompanying notes to financial statements

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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, 2007 and 2006 (Unaudited)
and The Year Ended December 31, 2006

	(Unaudited)		(Unaudited)		Year Ended
	Three Months Ended		Six Months Ended		December 31,
	June 30,		June 30,		2006
	2007	2006	2007	2006	
Sales	\$ 9,715,262	\$ 6,367,397	\$ 18,737,506	\$ 12,370,420	\$ 27,720,713
Cost of goods sold	5,886,186	3,787,577	11,336,011	7,093,221	17,081,992
Gross profit	3,829,076	2,579,820	7,401,495	5,277,199	10,638,721
Selling Expenses	912,262	849,647	1,682,343	1,432,591	3,065,254
General and Administrative	1,155,527	800,019	2,156,375	1,508,083	3,343,341
Total Operating Expenses	2,067,789	1,649,666	3,838,718	2,940,674	6,408,595
Income from operations	1,761,287	930,154	3,562,777	2,336,525	4,230,126
Other income (expense):					
Interest and dividend income	98,365	122,033	164,164	208,264	388,339
Rental Income	9,581	—	18,181	—	11,401
Interest expense	(109,283)	(63,200)	(218,812)	(113,426)	(345,525)
Gain (loss) on sale of marketable securities, net	439,243	225,292	453,380	188,414	355,767
Gain on marketable securities classified as trading	343	2,549	951	3,061	791
Total other income (Expense)	438,249	286,674	417,864	286,313	410,773