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, 2011

☐ 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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceeding12 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 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, a non-accelerated filer or a smaller reporting company. See the definitions 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 November 1, 2011, the issuer had 16,425,809 shares of common stock, no par value, outstanding.

LIFEWAY FOODS, INC.
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Condition
September 30, 2011 and 2010 (unaudited) and December 31, 2010

	(Unaudited) September 30, 2011	(Unaudited) September 30, 2010	December 31, 2010
ASSETS			
Current assets			
Cash and cash equivalents	$ 860,683	$ 849,657	$ 3,229,939
Investments	1,814,344	3,488,502	1,079,232
Certificates of deposits in financial institutions	300,000	450,000	250,000
Inventories	5,779,926	4,509,153	3,985,374
Accounts receivable, net of allowance for doubtful accounts and discounts	9,362,672	7,795,659	6,793,276
Prepaid expenses and other current assets	86,402	37,120	158,315
Other receivables	14,833	62,290	104,680
Deferred income taxes	458,001	277,393	328,470
Refundable income taxes	—	—	906,748
Total current assets	**18,676,861**	**17,469,774**	**16,836,034**
Property and equipment, net	**15,380,717**	**14,930,309**	**15,152,713**
Intangible assets			
Goodwill and other non amortizable brand assets	14,068,091	13,806,091	14,068,091
Other intangible assets, net of accumulated amortization of $2,891,981 and $2,106,851 at September 30, 2011 and 2010 and $2,304,107 at December 31, 2010, respectively	5,414,019	5,732,149	6,001,893
Total intangible assets	**19,482,110**	**19,538,240**	**20,069,984**
Other assets	**—**	**500,000**	**—**
Total assets	**$ 53,539,688**	**$ 52,438,323**	**$ 52,058,731**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Checks written in excess of bank balances	$ 870,987	$ 1,002,101	$ 1,341,210
Current maturities of notes payable	1,923,436	3,608,978	2,851,610
Accounts payable	4,529,757	2,708,534	4,183,481
Accrued expenses	857,862	739,982	509,459
Accrued income taxes	351,107	567,926	—
Total current liabilities	**8,533,149**	**8,627,521**	**8,885,760**
Notes payable	**5,882,691**	**6,197,778**	**6,122,225**
Deferred income taxes	**3,313,092**	**3,120,432**	**3,401,728**
Total liabilities	**17,728,932**	**17,945,731**	**18,409,713**
Stockholders' equity			
Common stock, no par value; 20,000,000 shares authorized; 17,273,776 shares issued; 16,425,809 shares outstanding at September 30, 2011; 17,273,776 shares issued; 16,597,749 shares outstanding at September 30, 2010; 17,273,776 shares issued; 16,536,657 shares outstanding at December 31, 2010	6,509,267	6,509,267	6,509,267
Paid-in-capital	2,032,516	2,018,727	2,032,516
Treasury stock, at cost	(7,447,975)	(5,897,308)	(6,425,546)
Retained earnings	34,797,229	31,811,438	31,575,875
Accumulated other comprehensive income (loss), net of taxes	(80,281)	50,468	(43,094)
Total stockholders' equity	**35,810,756**	**34,492,592**	**33,649,018**
Total liabilities and stockholders' equity	**$ 53,539,688**	**$ 52,438,323**	**$ 52,058,731**

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, 2011 and 2010 (Unaudited)
and for the Year Ended December 31, 2010

	(Unaudited) Three Months Ended September, 30				(Unaudited) Nine Months Ended September, 30				Year Ended December 31,	
	2011		2010		2011		2010		2010	
Sales	$19,423,533		15,908,784		58,383,802		$47,419,499		$63,543,445	
Less: discounts and allowances	(1,721,929)		(1,315,767)		(5,180,377)		(3,651,976)		(5,043,552)	
Net Sales	17,701,604	17,701,604	14,593,017	14,593,017	53,203,425	53,203,425	43,767,523	43,767,523	58,499,893	58,499,893
Cost of goods sold		11,066,579		8,981,922		33,253,219		25,512,628		36,926,973
Depreciation expense		396,732		349,017		1,163,939		1,033,612		1,393,745
Total cost of goods sold		11,463,311		9,330,939		34,417,158		26,546,240		38,320,718
Gross profit		**6,238,293**		**5,262,078**		**18,786,267**		**17,221,283**		**20,179,175**
Selling expenses		2,748,389		1,848,222		7,760,704		5,584,954		7,603,098
General and administrative		1,726,241		1,329,803		4,904,148		4,298,024		5,576,908
Amortization expense		195,958		175,760		587,874		527,280		724,537
Total Operating Expenses		**4,670,588**		**3,353,785**		**13,252,726**		**10,410,258**		**13,904,543**
Income from operations		**1,567,705**		**1,908,293**		**5,533,541**		**6,811,025**		**6,274,632**
Other income (expense):										
Interest and dividend income		14,465		97,697		49,152		205,381		260,552
Rental income		4,546		4,050		5,196		8,085		11,785
Interest expense		(61,074)		(86,167)		(195,502)		(262,274)		(350,997)
Gain (loss) on sale of investments, net		(33,477)		(1,687)		(35,533)		53,097		250,480
Loss on Disposition of Assets		(20,135)		---		(20,135)		---		---
Total other income (expense)		(95,675)		13,893		(196,822)		4,289		171,820
Income before provision for income taxes		**1,472,030**		**1,922,186**		**5,336,719**		**6,815,314**		**6,446,452**
Provision for income taxes		441,989		1,017,349		2,115,365		2,957,285		2,823,986
Net income		**$ 1,030,041**		**$ 904,837**		**$ 3,221,354**		**$ 3,858,029**		**$ 3,622,466**
Basic and diluted earnings per common share		0.06		0.05		0.20		0.23		0.22
Weighted average number of shares outstanding		**16,428,005**		**16,625,414**		**16,450,973**		**16,695,782**		**16,663,557**
COMPREHENSIVE INCOME										
Net income		**$ 1,030,041**		**$ 904,837**		**$ 3,221,354**		**$ 3,858,029**		**$ 3,622,466**
Other comprehensive income (loss), net of tax:										
Unrealized gains on investments (net of tax)		(83,118)		101,334		(57,263)		91,995		114,297
Less reclassification adjustment for (gains) losses included in net income (net of taxes)		18,914		990		20,076		(31,168)		(147,032)
Comprehensive income		**$ 965,837**		**$ 1,007,161**		**$ 3,184,167**		**$ 3,918,856**		**$ 3,589,731**

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, 2011 and 2010 (Unaudited)
and for the Year Ended December 31, 2010

	Common Stock, No Par Value 20,000,000 Shares Authorized							Accumulated Other Comprehensive Income (Loss), Net of Tax	
	# of Shares Issued	# of Shares Outstanding	# of Shares of Treasury Stock	Common Stock	Paid In Capital	Treasury Stock	Retained Earnings		Total
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)**	**32,571,330**
Redemption of stock	---	(252,398)	252,398	---	---	(2,666,288)	---	---	(2,666,288)
Issuance of treasury stock for compensation	---	10,500	(10,500)	---	66,730	87,515	---	---	154,245
Issuance of treasury stock for Fresh Made acquisition	---			---			---	---	---
Other comprehensive income (loss): Unrealized gains on securities, net of taxes and reclassification adjustment	---	---	---	---	---	---	---	(32,735)	(32,735)
Net income for the year ended December 31, 2010	---	---	---	---	---	---	3,622,466	---	3,622,466
Balances at December 31, 2010	**17,273,776**	**16,536,657**	**737,119**	**$ 6,509,267**	**$ 2,032,516**	**$ (6,425,546)**	**$ 31,575,875**	**$ (43,094)**	**$ 33,649,018**
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)**	**32,571,330**
Redemption of stock	---	(191,306)	191,306	---	---	(2,059,911)	---	---	(2,059,911)
Issuance of treasury stock for compensation	---	10,500	(10,500)	---	52,941	9,376	---	---	62,317
Other comprehensive income (loss): Unrealized gains on securities, net of taxes and reclassification adjustment	---	---	---	---	---	---	---	60,827	60,827
Net income for the nine months ended September 30, 2010	---	---	---	---	---	---	3,858,029	---	3,858,029
Balances at September 30, 2010	**17,273,776**	**16,597,749**	**676,027**	**$ 6,509,267**	**$ 2,018,727**	**$ (5,897,308)**	**$ 31,811,438**	**$ 50,468**	**$ 34,492,592**
Balances at January 1, 2011	**17,273,776**	**16,536,657**	**737,119**	**$ 6,509,267**	**$ 2,032,516**	**$ (6,425,546)**	**$ 31,575,875**	**$ (43,094)**	**$ 33,649,018**
Redemption of stock	---	(110,848)	110,848	---	---	(1,022,429)	---	---	(1,022,429)

Other comprehensive income (loss):									
Unrealized gains on securities, net of taxes and reclassification adjustment	---	---	---	---	---	---	---	(37,187)	(37,187)
Net income for the nine months ended September 30, 2011	---	---	---	---	---	---	3,221,354	---	3,221,354
Balances at September 30, 2011	**17,273,776**	**16,425,809**	**847,967**	**$ 6,509,267**	**$ 2,032,516**	**$ (7,447,975)**	**$ 34,797,229**	**$ (80,281)**	**$ 35,810,756**

See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2011 and 2010 (Unaudited)
and for the Year Ended December 31, 2010

	(Unaudited) September 30, 2011	(Unaudited) September 30, 2010	December 31, 2010
Cash flows from operating activities:			
Net income	**$ 3,221,354**	**$ 3,858,029**	**$ 3,622,466**
Adjustments to reconcile net income to net cash flows from operating activities, net of acquisition:			
Depreciation and amortization	1,751,813	1,560,893	2,118,282
Loss (Gain) on sale of investments, net	35,533	(53,097)	(250,480)
Loss on sale of equipment	20,135		
Deferred income taxes	(186,677)	(392,966)	(96,918)
Treasury stock issued for compensation	---	62,317	154,245
Increase in allowance for doubtful accounts	80,000	---	17,754
(Increase) decrease in operating assets:			
Accounts receivable	(2,649,396)	(1,795,921)	(811,292)
Other receivables	89,847	(12,532)	(54,922)
Inventories	(1,794,552)	(1,212,177)	(682,398)
Refundable income taxes	906,748	1,308,978	402,230
Prepaid expenses and other current assets	71,913	3,577	(117,618)
Increase (decrease) in operating liabilities:			
Accounts payable	346,276	(55,466)	1,419,479
Accrued expenses	348,403	125,638	(104,885)
Income taxes payable	351,107	567,926	---
Net cash provided by operating activities	**2,592,504**	**3,965,199**	**5,615,943**
Cash flows from investing activities:			
Purchases of investments	(1,806,564)	(1,809,170)	(2,161,552)
Proceeds from sale of investments	990,397	2,868,975	5,669,158
Investments in certificates of deposits	(50,000)	---	---
Proceeds from redemption of certificates of deposit	---	202,545	402,005
Purchases of property and equipment	(1,241,388)	(1,681,740)	(2,229,274)
Acquisition of the assets of First Juice	---	---	(270,000)
Net cash provided by (used in) investing activities	**(2,107,555)**	**(419,390)**	**1,410,337**
Cash flows from financing activities:			
Proceeds of note payable	1,000,000	250,000	250,000
Checks written in excess of bank balances	(470,223)	659,125	998,234
Purchases of treasury stock	(1,022,429)	(2,059,911)	(2,666,288)
Repayment of notes payable	(2,361,553)	(2,175,773)	(3,008,694)
Net cash used in financing activities	**(2,854,205)**	**(3,326,559)**	**(4,426,748)**
Net (decrease) increase in cash and cash equivalents	**(2,369,256)**	**219,250**	**2,599,532**
Cash and cash equivalents at the beginning of the period	3,229,939	630,407	630,407
Cash and cash equivalents at the end of the period	**$ 860,683**	**$ 849,657**	**$ 3,229,939**

See accompanying notes to financial statements

Note 1 – NATURE OF BUSINESS

Lifeway Foods, Inc. (The "Company") commenced operations in February 1986 and incorporated under the laws of the state of Illinois on May 19, 1986. The Company's principal business activity is the production of dairy products. Specifically, the Company produces Kefir, a drinkable product which is similar to but distinct from yogurt, in several flavors sold under the name "Lifeway's Kefir;" a plain farmer's cheese sold under the name "Lifeway's Farmer's Cheese;" a fruit sugar-flavored product similar in consistency to cream cheese sold under the name of "Sweet Kiss;" and a dairy beverage, similar to Kefir, with increased protein and calcium, sold under the name "Basics Plus." The Company also produces a vegetable-based seasoning under the name "Golden Zesta." The Company currently distributes its products throughout the Chicago Metropolitan area and various cities in the East Coast through local food stores. In addition, the products are sold throughout the United States and Ontario, Canada by distributors. The Company also distributes some of its products to Eastern Europe.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows:

Basis of presentation
The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, such information reflects all adjustments (consisting of normal recurring adjustments), which are, in the opinion of Management, necessary for fair statement of results for the interim periods.

Principles of consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, LFI Enterprises, Inc., Helios Nutrition, Ltd., Pride of Main Street, L.L.C., Starfruit, L.L.C., Fresh Made, Inc. and Starfruit Franchisor, L.L.C. In 2010, the Company acquired the assets of First Juice, Inc. ("First Juice") and consolidated the operations into the operations of the Company. All significant intercompany accounts and transactions have been eliminated. The financial statements include the results of operations from the acquisition of the assets of First Juice from October 14, 2010 through the end of the period (see Note 3).

Use of estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made in preparing the consolidated financial statements include the allowance for doubtful accounts and discounts, the valuation of investment securities, the valuation of goodwill, intangible assets, and deferred taxes.

Revenue Recognition
Sales of Company produced dairy products are recorded at the time of shipment and the following four criteria have been met: (i) The product has been shipped and the Company has no significant remaining obligations; (ii) Persuasive evidence of an agreement exists; (iii) The price to the buyer is fixed or determinable and (iv) Collection is probable. In addition, shipping costs invoiced to the customers are included in net sales and the related cost in cost of sales. Discounts and allowances are reported as a reduction of gross sales unless the allowance is attributable to an identifiable benefit separable from the purchase of the product, the value of which can be reasonably estimated, which would be charged to the appropriate expense account.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and cash equivalents
All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

The Company maintains cash deposits at several institutions located in the greater Chicago, Illinois and Philadelphia, Pennsylvania metropolitan areas.

Investments
All investment securities are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on available-for-sale securities are reported as a separate component of stockholders' equity. Amortization, accretion, interest and dividends, realized gains and losses, and declines in value judged to be other-than-temporary on available-for-sale securities are recorded in other income. All of the Company's securities are subject to a periodic impairment evaluation. This evaluation depends on the specific facts and circumstances. Factors that we consider in determining whether an other-than-temporary decline in value has occurred include: the market value of the security in relation to its cost basis; the financial condition of the investee; and the intent and ability to retain the investment for a sufficient period of time to allow for possible recovery in the market value of the investment.

Accounts receivable
Credit terms are extended to customers in the normal course of business. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral.

Accounts receivable are recorded at invoice amounts, and reduced to their estimated net realizable value by recognition of an allowance for doubtful accounts and anticipated discounts. The Company's estimate of the allowances for doubtful accounts and anticipated discounts are based upon historical experience, its evaluation of the current status and contract terms of specific receivables, and unusual circumstances, if any. Accounts are considered past due if payment is not made on a timely basis in accordance with the Company's credit terms. Accounts considered uncollectible are charged against the allowance.

Inventories
Inventories are stated at the lower of cost or market, cost being determined by the first-in, first-out method.

Property and equipment
Property and equipment is stated at depreciated cost or fair value where depreciated cost is not recoverable. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Property and equipment is being depreciated over the following useful lives:

Category	Years
Buildings and improvements	31 and 39
Machinery and equipment	5 – 12
Office equipment	5 – 7
Vehicles	5

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Intangible assets acquired in business combinations
The Company accounts for intangible assets at historical cost. Intangible assets acquired in a business combination are recorded under the purchase method of accounting at their estimated fair values at the date of acquisition. Goodwill represents the excess purchase price over the fair value of the net tangible and other identifiable intangible assets acquired. Goodwill is not amortized, but is reviewed for impairment at least annually. Brand assets represent the fair value of brands acquired. Brand assets have an indefinite life and therefore are not amortized, rather are reviewed periodically for impairment. The Company amortizes other intangible assets over their estimated useful lives, as disclosed in the table below.

The Company reviews intangible assets and their related useful lives at least once per year to determine if any adverse conditions exist that would indicate the carrying value of these assets may not be recoverable. The Company conducts more frequent impairment assessments if certain conditions exist, including: a change in the competitive landscape, any internal decisions to pursue new or different strategies, a loss of a significant customer, or a significant change in the market place including changes in the prices paid for the Company's products or changes in the size of the market for the Company's products.

If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying amount of the intangible asset is amortized prospectively over the revised remaining useful life.

Intangible assets are being amortized over the following useful lives:

Category	Years
Recipes	4
Customer lists and other customer related intangibles	7-10
Lease agreement	7
Trade names	15
Formula	10
Customer relationships	12

Income taxes
Deferred income taxes are the result of temporary differences that arise from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or non-current, depending on the classification of the assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse.

The principal sources of temporary differences are different depreciation and amortization methods for financial statement and tax purposes, unrealized gains or losses related to investments, capitalization of indirect costs for tax purposes, purchase price adjustments, and the recognition of an allowance for doubtful accounts for financial statement purposes.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The only periods subject to examination for the Company's federal return are the 2009 and 2010 tax years. The Company believes that its income tax filing positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded.

During the year ended December 31, 2010, the IRS completed a review of the Company's 2007 and 2008 federal tax return filings, resulting in a liability of approximately $220,000 being recognized and paid during 2010. The Company's policy for recording interest and penalties associated with audits is to record such items as a component of income before taxes. There were no such items during the periods covered in this report.

Treasury stock
Treasury stock is recorded using the cost method.

Advertising and promotional costs
The Company expenses advertising costs as incurred. For the year ended December 31, 2010 and for the nine months ended September 30, 2011 and 2010 total advertising expenses were $2,390,002, $2,702,782 and $3,377,757, respectively.

Earnings per common share
Earnings per common share were computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. For the nine months ended September 30, 2011 and 2010 and for the year ended December 31, 2010, diluted and basic earnings per share were the same, as the effect of dilutive securities options outstanding was not significant.

Reclassification
Certain 2010 balance sheet amounts have been reclassified to conform to the 2011 presentation.

Note 3 – ACQUISITIONS

On October 14, 2010, Lifeway purchased certain assets of First Juice, Inc., a producer of organic fruit and vegetable juice beverages designed for children. The consideration for substantially all of the assets was an aggregate of $770,000, consisting of a $500,000 previous investment in preferred stock and an additional $270,000 cash paid in 2010. Production was moved to Lifeway facilities upon closing of the acquisition. The acquisition was consummated to expand the Company's presence in the children's market, increase distribution channels for existing Lifeway products, and increase diversification of the Company's products. There were no significant liabilities assumed. Acquisition costs for legal and professional fees have been included in General and Administrative costs and were not significant. The entire amount of goodwill resulting from the acquisition is tax deductible.

The estimated fair value of assets acquired, including the real property, and liabilities assumed consisted of the following:

Trade names	$	268,000
Other current assets		6,000
Customer lists		199,000
Fixed assets		35,000
Non amortizable goodwill and brand asset		262,000
Total fair value of assets acquired and liabilities assumed	$	770,000

Had the acquisition occurred on January 1, 2010, the impact on the gross revenue and net income of the Company would not have been significant and would have had no impact on earnings per share for the full year ended December 31, 2010.

Note 4 – INTANGIBLE ASSETS

Intangible assets, and the related accumulated amortization, consist of the following:

	September 30, 2011		September 30, 2010		December 31, 2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Recipes	$ 43,600	$ 43,600	$ 43,600	$ 43,600	$ 43,600	$ 43,600
Customer lists and other related intangibles customer related intangibles	4,504,200	1,419,834	4,305,200	911,919	4,504,200	1,039,323
Lease acquisition	87,200	85,368	87,200	76,824	87,200	79,941
Customer relationship	985,000	424,116	985,000	342,008	985,000	362,526
Trade names	2,248,000	692,763	1,980,000	550,000	2,248,000	585,267
Formula	438,000	226,300	438,000	182,500	438,000	193,450
	$ 8,306,000	$ 2,891,981	$ 7,839,000	$ 2,106,851	$ 8,306,000	$ 2,304,107

Amortization expense is expected to be as follows for the 12 months ending September 30:

2012	$	756,634
2013		711,366
2014		711,366
2015		711,366
2016		704,066
Thereafter		1,819,221
	$	5,414,091

Amortization expense during the nine months ended September 30, 2011 and 2010 and the year ended December 31, 2010 was $587,874, $527,281 and $724,537, respectively.

Note 5 – INVESTMENTS

The cost and fair value of investments classified as available for sale are as follows:

September 30, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equities	$ 681,162	$ 6,386	$ (88,910)	$ 598,638
Mutual Funds	3,588	40	(794)	2,834
Preferred Securities	114,452	---	(18,154)	96,298
Corporate Bonds	556,141	---	(40,011)	516,130
Government Agency Obligations	601,092	---	(648)	600,444
Total	$ 1,956,435	$ 6,426	$ (148,517)	$ 1,814,344

September 30, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equities	$ 689,639	$ 27,867	$ (55,041)	$ 662,465
Mutual Funds	96,537	6,323	(1,014)	101,846
Preferred Securities	243,264	10,020	(11,764)	241,520
Corporate Bonds	2,313,081	127,867	(19,777)	2,421,171
Government Agency Obligations	60,005	1,495	---	61,500
Total	$ 3,402,526	$ 173,572	$ (87,596)	$ 3,488,502

December 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equities	$ 225,573	$ 16,173	$ (68,974)	$ 172,772
Mutual Funds	202,108	4,661	(2,017)	204,752
Preferred Securities	228,514	—	(18,329)	210,185
Corporate Bonds	496,451	843	(5,771)	491,523
Total	$ 1,152,646	$ 21,677	$ (95,091)	$ 1,079,232

Proceeds from the sale of investments were $5,669,158, $990,397 and $2,868,975 during the year ended December 31, 2010 and for the nine months ended September 30, 2011 and 2010, respectively.

Gross gains of $451,420, $27,291 and $245,890 and gross losses of $200,940, $62,824 and $192,793 were realized on these sales during the year ended December 31, 2010 and for the nine months ended September 30, 2011 and 2010, respectively.

Note 5 – INVESTMENTS - Continued

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2011 and 2010 and at December 31, 2010:

	Less Than 12 Months		12 Months or Greater		Total	
September 30, 2011	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	$ 386,005	$ (52,770)	$ 33,294	$ (36,140)	$ 419,299	$ (88,910)
Mutual Funds	238	(41)	2,432	(753)	2,670	(794)
Preferred Securities	---	---	96,298	(18,154)	96,298	(18,154)
Corporate Bonds	380,326	(26,810)	135,805	(13,201)	516,131	(40,011)
Government Agency obligations	600,444	(648)	---	---	600,444	(648)
	$ 1,367,013	$ (80,269)	$ 267,829	$ (68,248)	$ 1,634,842	$ (148,517)

	Less Than 12 Months		12 Months or Greater		Total	
September 30, 2010	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	$ 59,879	$ (5,726)	$ 79,962	$ (49,315)	$ 139,841	$ (55,041)
Mutual Funds	---	---	17,970	(1,014)	17,970	(1,014)
Preferred Securities	---	---	216,750	(11,764)	216,750	(11,764)
Corporate Bonds	625,104	(17,357)	176,352	(2,420)	801,456	(19,777)
	$ 684,983	$ (23,083)	$ 491,034	$ (64,513)	$ 1,176,017	$ (87,596)

	Less Than 12 Months		12 Months or Greater		Total	
December 31, 2010	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	$ 48,202	$ (11,675)	$ 101,467	$ (57,299)	$ 149,669	$ (68,974)
Mutual Funds	—	—	85,061	(2,017)	85,061	(2,017)
Preferred Securities	—	—	210,185	(18,329)	210,185	(18,329)
Corporate Bonds	146,710	(2,296)	122,532	(3,475)	269,242	(5,771)
	$ 194,912	$ (13,971)	$ 519,245	$ (81,120)	$ 714,157	$ (95,091)

Equities, Mutual Funds, Preferred Securities, Corporate Bonds and Government Agency Obligations - The Company's investments in equity securities, mutual funds, corporate bonds and government agency obligations consist of investments in common stock, preferred stock and debt securities of companies in various industries. As of September 30, 2011, there were thirty-six equity securities, one mutual fund security, two preferred securities, eight corporate bond securities and one government agency obligation security that had unrealized losses. The Company evaluated the near-term prospects of the issuer in relation to the severity and duration of the impairment. Based on that evaluation and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider any material investments to be other-than-temporarily impaired at September 30, 2011.

Note 6 – INVENTORIES

Inventories consist of the following:

	September 30, 2011	September 30, 2010	December 31, 2010
Finished goods	$ 1,325,523	$ 1,523,234	$ 1,636,988
Production supplies	2,163,203	1,745,308	1,527,064
Raw materials	2,291,200	1,240,611	821,322
Total inventories	$ 5,779,926	$ 4,509,153	$ 3,985,374

Note 7 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	September 30, 2011	September 30, 2010	December 31, 2010
Land	$ 1,178,160	$ 1,178,160	$ 1,178,160
Buildings and improvements	11,555,313	11,219,047	11,328,860
Machinery and equipment	14,374,318	13,256,649	13,713,649
Vehicles	1,289,307	976,745	976,745
Office equipment	377,309	299,823	352,135
Construction in process	261,865	133,579	96,990
	29,036,272	27,064,003	27,646,539
Less accumulated depreciation	13,655,555	12,133,694	12,493,826
Total property and equipment	$ 15,380,717	$ 14,930,309	$ 15,152,713

Depreciation expense during the nine months ended September 30, 2011 and 2010 and for the year ended December 31, 2010 was $1,163,939, $1,033,611 and $1,393,745, respectively.

Note 8 – ACCRUED EXPENSES

Accrued expenses consist of the following:

	September 30, 2011	September 30, 2010	December 31, 2010
Accrued payroll and payroll taxes	$ 460,676	$ 303,436	$ 181,274
Accrued property tax	374,903	375,972	273,876
Other	22,283	60,574	54,309
	$ 857,862	$ 739,982	$ 509,459

Note 9 – NOTES PAYABLE

Notes payable consist of the following:

	September 30, 2011	September 30, 2010	December 31, 2010
Note payable to Private Bank in monthly installments of $42,222, plus variable interest rate, currently at 2.761%, with a balloon payment of $5,066,667 due February 6, 2014. Collateralized by substantially all assets of the Company.	$ 6,248,889	$ 6,735,556	$ 6,628,889
Line of credit with Private Bank at variable interest rate, currently at 2.761%. The agreement has been extended with terms allowing borrowings up to $2.0 million, maturing on May 31, 2012. Collateralized by substantially all assets of the Company.	---	750,000	—
Line of credit with Morgan Stanley for borrowings up to $2.8 million at variable interest rate, currently at 2.94% due on demand. Collateralized by investments with a fair value of $1,212,873, and cash and CD's totaling $449,967 at September 30, 2011.	1,384,468	2,321,200	2,344,946
Notes payable to Ford Credit Corp. payable in monthly installments of $1,778.23 at 6.116%, secured by transportation equipment	72,753	---	---
Note payable to Fletcher Jones of Chicago, Ltd LLC in monthly installments of $1,768.57 at 6.653%, due May 24, 2017, secured by transportation equipment	100,017	---	—
Total notes payable	7,806,127	9,806,756	8,973,835
Less current maturities	1,923,436	3,608,978	2,851,610
Total long-term portion	$ 5,882,691	$ 6,197,778	$ 6,122,225

In accordance with the Private Bank agreements referenced above, the Company is subject to minimum fixed charged ratio and tangible net worth thresholds. At September 30, 2011, the Company was in compliance with these covenants.

Maturities of notes payables are as follows:

For the Period Ended September 30,	
2012	$ 1,923,436
2013	541,115
2014	5,272,275
2015	35,575
2016	19,546
Thereafter	14,180
Total	$ 7,806,127

Note 10 – PROVISION FOR INCOME TAXES

The provision for income taxes consists of the following:

	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010	For the Year Ended December 31, 2010
Current:			
Federal	$ 1,422,579	$ 2,489,227	$ 2,269,819
State and local	879,463	861,024	651,085
Total current	2,302,042	3,350,251	2,920,904
Deferred	(186,677)	(392,966)	(96,918)
Provision for income taxes	$ 2,115,365	$ 2,957,285	$ 2,823,986

A reconciliation of the provision for income taxes and the income tax computed at the statutory rate is as follows:

	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010	For the Year Ended December 31, 2010
Federal income tax expense computed at the statutory rate	$ 1,814,484	$ 2,317,207	$ 2,180,228
State and local tax expense, net	506,988	497,918	651,085
Permanent differences	(146,938)	(167,615)	(117,247)
Tax credits and other	(59,169)	309,775	109,920
Provision for income taxes	$ 2,115,365	$ 2,957,285	$ 2,823,986

Amounts for deferred tax assets and liabilities are as follows:

	September 30, 2011	September 30, 2010	December 31, 2010
Non-current deferred tax assets (liabilities) arising from:			
Temporary differences -			
Accumulated depreciation and amortization from purchase accounting adjustments	$ (3,584,660)	$ (3,457,448)	$ (3,673,296)
Capital loss carry-forwards	271,568	337,016	271,568
Total non-current net deferred tax liabilities	(3,313,092)	(3,120,432)	(3,401,728)
Current deferred tax assets arising from:			
Unrealized (gains) losses on investments	61,810	(35,509)	30,320
Impairment of investments	---	4,234	4,232
Inventory	257,963	190,958	168,875
Allowance for doubtful accounts and discounts	138,228	117,710	125,043
Total current deferred tax assets	458,001	277,393	328,470
Net deferred tax liability	$ (2,855,091)	$ (2,843,039)	$ (3,073,258)

Note 11 – SUPPLEMENTAL CASH FLOW INFORMATION

The Company applied a previous investment in First Juice, Inc. of $500,000 toward the acquisition during 2010. The impact on the acquisition and intangible assets has been omitted from the investing section of the cash flow statement.

Cash paid for interest and income taxes are as follows:

	For the Nine Months Ended September 30,		For the Year Ended December 31,
	2011	2010	2010
Interest	$ 195,448	$ 314,578	$ 375,347
Income taxes	$ 1,169,334	$ 1,479,092	$ 2,824,824

Note 12 – STOCK AWARD AND STOCK OPTION PLANS

The Company has a registration statement filed with the Securities and Exchange Commission in connection with a Consulting Service Compensation Plan covering up to 1,200,000 of the Company's common stock shares. Pursuant to such Plan, the Company may issue common stock or options to purchase common stock to certain consultants, service providers, and employees of the Company. The option price, number of shares, grant date, and vesting terms are determined at the discretion of the Company's Board of Directors.

As of December 31, 2010 and at September 30, 2011 and 2010, there were no stock options outstanding or exercisable. There were approximately 940,000 shares available for issuance under the Plan at September 30, 2011.

On May 28, 2009, Lifeway's Board of Directors approved awards of an aggregate amount of 18,000 shares to be awarded under its Employee and Consulting Services and Compensation Plan to certain key employees and consultants for services rendered to the Company. The stock awards were made on May 28, 2009 and have vesting periods of one year. The expense for the awards is measured as of July 14, 2009 at $14.69 per share for 18,000 shares, or a total stock award expense of $264,420. This expense was recognized as the stock awards vested in 12 equal portions of $22,035, or 1,500 shares per month for one year.

Note 13 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value as the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The standards emphasize that fair value is a market-based measurement, not an entity-specific measurement and establish the following fair value hierarchy used in fair value measurements:

Level 1 – Inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Inputs use other inputs that are observable, either directly or indirectly. These inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

Note 13 – FAIR VALUE MEASUREMENTS - Continued

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair measurements requires judgment and considers factors specific to each asset or liability.

The Company has available for sale investment securities measured at fair value on a recurring basis. All categories of investment securities noted in Note 5 were valued using Level 1 inputs as described above, in 2011 and 2010. There were no other assets or liabilities measured at fair value on a recurring or non-recurring basis as of September 30, 2011, September 30, 2010 or December 31, 2010.

Note 14 – RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures. FASB ASU 2010-06 amends the fair value disclosure guidance to include new disclosures and changes to clarify existing disclosure requirements. ASU 2010-06 was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The impact of ASU 2010-06 on the Company's disclosures was not significant to the consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Comparison of Quarter Ended September 30, 2011 to Quarter Ended September 30, 2010

The following analysis should be read in conjunction with the unaudited financial statements of the Company and related notes included elsewhere in this quarterly report and the audited financial statements and Management's Discussion and Analysis contained in our Form 10-K, for the fiscal year ended December 31, 2010.

Results of Operations

Total consolidated gross sales increased by $3,514,749 (approximately 22%) to $19,423,533 during the three-month period ended September 30, 2011 from $15,908,784 during the same three-month period in 2010. This increase is primarily attributable to increased sales and awareness of flagship line, Kefir, as well as ProBugs® Organic Kefir for kids and BioKefir™. In addition, Lifeway Frozen Kefir line, which was launched in April 2011 or the second quarter of 2011, contributed approximately $300,000 to revenue during the third quarter 2011.

Total consolidated net sales increased by $3,108,587 (approximately 21%) to $17,701,604 during the three-month period ended September 30, 2011 from $14,593,017 during the same three-month period in 2010. Net sales are recorded as gross sales less promotional activities such as slotting fees paid, couponing, spoilage and promotional allowances as well as early payment terms given to customers.

Cost of goods sold as a percentage of net sales, excluding depreciation expense, were approximately 63% during the third quarter of 2011, compared to approximately 62% during the same period in 2010. The increase was primarily attributable to the cost of transportation and other petroleum based production supplies, as well as the increased cost of conventional milk, our largest raw material. The cost of milk was approximately 35% to 45% higher during the third quarter 2011 when compared to the same period in 2010.

Operating expenses as a percentage of net sales were approximately 26% during the third quarter of 2011 compared to approximately 23% during the same period in 2010. This increase was primarily attributable to increased selling expenses as compared to the same period in 2010. Selling related expenses increased by $900,167 (approximately 49%) to $2,748,389 during the third quarter of 2011, from $1,848,222 during the same period in 2010. This increase is directly attributable to increases in marketing and advertising of the Company's flagship line, Kefir, as well as ProBugs® Organic Kefir for kids, BioKefir,™ and Lifeway's Frozen Kefir.

Total operating income decreased by $340,588 (approximately 18%) to $1,567,705 during the third quarter of 2011, from $1,908,293 during the same period in 2010.

Provision for income taxes was $441,989, or a 30% effective tax rate, for the 2011 third quarter compared with $1,017,349, or a 53% tax rate, during the same period in 2010. The decline in the effective rate is primarily the result of changes in estimates reflected in the current period. Additionally, during the year ended December 31, 2010, a liability of approximately $220,000 was recognized resulting from the completion of an IRS review of the Company's 2007 and 2008 federal tax return filings. Income taxes are discussed in Note 10 of the Notes to Consolidated Financial Statements.

Total net income was $1,030,041 or $0.06 per share for the three-month period ended September 30, 2011 compared to $904,837 or $0.05 per share in the same period in 2010.

Comparison of Nine-Month Period Ended September 30, 2011 to Nine-Month Period Ended September 30, 2010

Total consolidated gross sales increased by $10,964,303, (approximately 23%) to $58,383,802 during the nine- month period ended September 30, 2011 from $47,419,499 during the same nine-month period in 2010. This increase is primarily attributable to increased sales and awareness of flagship line, Kefir, as well as ProBugs® Organic Kefir for kids and BioKefir™. In addition, Lifeway Frozen Kefir line, which was launched in April 2011 or the second quarter of 2011, contributed approximately $550,000 to revenue during the first nine months of 2011.

Total consolidated net sales increased by $9,435,902 (approximately 22%) to $53,203,425 during the nine-month period ended September 30, 2011 from $43,767,523 during the same nine-month period in 2010. Net sales are recorded as gross sales less promotional activities such as slotting fees paid, couponing, spoilage and promotional allowances as well as early payment terms given to customers.

Cost of goods sold as a percentage of net sales, excluding depreciation expense, were approximately 63% during the nine-month period ended September 30, 2011, compared to approximately 58% during the same period in 2010. The increase was primarily attributable to the cost of transportation and other petroleum based production supplies, as well as the increased cost of conventional milk, our largest raw material. The cost of milk was approximately 20 to 25% higher during the nine month period ended September 30, 2011 when compared to the same period in 2010.

Operating expenses as a percentage of net sales were approximately 25% during the nine-month period ended September 30, 2011 compared to approximately 24% during the same period in 2010. Selling related expenses increased by $2,175,750 (approximately 39%) to $7,760,704 during the nine-month period ended September 30, 2011, from $5,584,954 during the same period in 2010. This increase is directly attributable to the Company recording an approximate $700,000 expense related its 25th Anniversary Cross Country Mobile tour, which occurred in the second quarter and was expensed during the second quarter of 2011, and other increases in marketing and advertising of the Company's flagship line Kefir, as well as ProBugs® Organic Kefir for kids, BioKefir™, and Lifeway's Frozen Kefir. The Company views this as a non-recurring advertising expense.

Total operating income decreased by $1,277,484 (approximately 19%) to $5,533,541 during the nine-month period ended September 30, 2011, from $6,811,025 during the same period in 2010.

Provision for income taxes was $2,115,365 or a 40% effective tax rate, for the nine-month period ended September 30, 2011 compared with $2,957,285, or a 43% tax rate, during the same period in 2010. The decline in the effective rate is primarily the result of changes in estimates reflected in the current period. Additionally, during the year ended December 31, 2010, a liability of approximately $220,000 was recognized resulting from the completion of an IRS review of the Company's 2007 and 2008 federal tax return filings. Income taxes are discussed in Note 10 of the Notes to Consolidated Financial Statements.

Total net income was $3,221,354 or $0.20 per share for the nine-month period ended September 30, 2011 compared to $3,858,029 or $0.23 per share in the same period in 2010.

Liquidity and Capital Resources

Sources and Uses of Cash

Net cash provided by operating activities was $2,592,504 during the nine-months ended September 30, 2011 which is a decrease of $1,372,695 when compared to the same period in 2010. This decrease is primarily attributable to the decrease in net income of $636,675.

Net cash used in investing activities was $2,107,555 during the nine-months ended September 30, 2011 which is an increase of $1,688,165 compared to the same period in 2010. This increase is primarily due to a decrease in proceeds from sale of investments of $1,878,578 compared to 2010.

The Company had a net increase in cash and cash equivalents of $11,026 during the third quarter of 2011 compared to the same period in 2010. The Company had cash and cash equivalents of $860,683 as of September 30, 2011 compared with cash and cash equivalents of $849,657 as of September 30, 2010.

Assets and Liabilities

Total assets were $53,539,688 as of September 30, 2011, which is an increase of $1,480,957 when compared to December 31, 2010, and an increase of $1,101,365 when compared to September 30, 2010. This is primarily due to an increase in accounts receivable of $1,567,013 as of September 30, 2011, when compared with September 30, 2010.

Total current liabilities were $8,533,149 as of September 30, 2011, which is a decrease of $352,611 when compared to December 31, 2010. Total current liabilities decreased by $94,372 when compared to September 30, 2010. This is primarily due a $1,685,542 decrease in current maturities of notes payable partially offset by a $1,821,223 increase in accounts payable as of September 30, 2011, when compared to September 30, 2010.

Long term notes payable decreased by $239,534 as of September 30, 2011, when compared to December 31, 2010 and decreased by $315,087 when compared to September 30, 2010. The balance of the long term notes payable as of September 30, 2011 was $5,882,691.

Total stockholder's equity was $35,810,756 as of September 30, 2011, which is an increase of $2,161,738 when compared to December 31, 2010. This is primarily due the increase in retained earnings of $3,221,354 when compared to December 31, 2010. Total stockholder's equity increased by $1,318,164 when compared to September 30, 2010. This is primarily due the increase in retained earnings by $2,985,791 as of September 30, 2011, when compared to September 30, 2010.

We previously held significant portions of our assets in marketable securities. During the fourth quarter of 2010, we converted certain securities to cash and cash equivalents in order to ensure we had easy access to capital to capitalize on the opportunities we see ahead for our business. All of our marketable securities are classified as available-for-sale on our balance sheet. All of these securities are stated thereon at market value as of the end of the applicable period. Gains and losses on the portfolio are determined by the specific identification method.

We anticipate being able to fund the Company's foreseeable liquidity requirements internally. We continue to explore potential acquisition opportunities in our industry in order to boost sales while leveraging our distribution system to consolidate and lower costs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of September 30, 2011, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial and Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial and Accounting Officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of September 30, 2011 in ensuring that information required to be disclosed by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified under the Exchange Act rules and forms due to the material weaknesses described in our Form 10-K for the year ended December 31, 2010. As a result, we performed additional analysis and other post-closing procedures to ensure our consolidated financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, management believes the consolidated financial statements included in this Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

Changes in Internal Control Over Financial Reporting

During 2011, the Company's management continued to implement remediation activities to improve the quality of its internal control over financial reporting. The Company implemented new policies and procedures in order to reduce or eliminate deficiencies. The most significant component of the changes in the internal control over financial reporting is the implementation of accounting software to provide additional entity level controls over advertising and sales promotional discounts with customers, controls over the identification, recording and review of period end activity for accounts receivable, accounts payable, fixed assets, inventory, and deferred taxes. The Company, together with a professional services firm, will continue to test the Company's internal control over financial reporting. The changes in our internal control have not materially affected, and are not reasonably likely to materially affect, our internal control over financial reporting for the period ended September 30, 2011. The foregoing notwithstanding, we continue to evaluate the appropriate remediation measures required in order to address the previously identified material weaknesses. Progress relative to our remediation measures will be disclosed in our subsequent Exchange Act reports. We are committed to making continued improvements to address the previously identified material weaknesses.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS.

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(c) PURCHASES OF THE COMPANY'S SECURITIES

Period	(a) Total Numbers of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs*	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs*
July 1, 2011 to July 31, 2011	0	—	0	191,754
August 1, 2011 to August 31, 2011	3,000	10.01	3,000	188,754
September 1, 2011 to September 30, 2011	2,000	10.12	2,000	186,754
Total	5,000	10.07	5,000	186,754

*On January 1, 2011, the Company approved a new share repurchase program for up to 250,000 shares with a plan expiration date of one year from the date of the first purchase.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. REMOVED AND RESERVED.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit Number	Description of Document
31.1	Officer's Certificate Pursuant to 15 U.S.C. 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Officer's Certificate Pursuant to 15 U.S.C. 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data Files.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIFEWAY FOODS, INC.
(Registrant)

Date: November 14, 2011

By: /s/ Julie Smolyansky
Julie Smolyansky
Chief Executive Officer, President
and Director

Date: November 14, 2011

By: /s/ Edward P. Smolyansky
Edward P. Smolyansky
Chief Financial and Accounting
Officer and Treasurer

EXHIBIT INDEX

Exhibit Number	Description of Document
31.1	Officer's Certificate Pursuant to 15 U.S.C. 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Officer's Certificate Pursuant to 15 U.S.C. 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data Files.

EXHIBIT 31.1

SECTION 302 CERTIFICATION OF C.E.O.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Julie Smolyansky, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lifeway Foods, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter n the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2011

By: /s/ Julie Smolyansky
Julie Smolyansky
Chief Executive Officer, President and Director

EXHIBIT 31.2

SECTION 302 CERTIFICATION OF C.F.O.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Edward P. Smolyansky, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lifeway Foods, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2011

By: /s/ Edward P. Smolyansky
Edward P. Smolyansky
Chief Financial and Accounting Officer and Treasurer

EXHIBIT 32.1

SECTION 906 CERTIFICATION OF C.E.O.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Lifeway Foods, Inc. (the "Company") for the period ended September 30, 2011 as filed with the SEC (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to her knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date:	November 14, 2011	By:	/s/ Julie Smolyansky
			Julie Smolyanky
			Chief Executive Officer, President and Director

EXHIBIT 32.2

SECTION 906 CERTIFICATION OF C.F.O.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Lifeway Foods, Inc. (the "Company") for the period ended September 30, 2011 as filed with the SEC (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: November 14, 2011

By: /s/ Edward P. Smolyansky
Edward P. Smolyansky
Chief Financial and Accounting Officer and Treasurer