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**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, 2013

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 preceding 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 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 8, 2013, 16,346,017 shares of the registrant's common stock, no par value, were outstanding.

LIFEWAY FOODS, INC.**Table of Contents****PART I – FINANCIAL INFORMATION**

Item 1.	Financial Statements.	3
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations.	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	21
Item 4.	Controls and Procedures.	21

PART II – OTHER INFORMATION

Item 1.	Legal Proceedings.	23
Item 1 A.	Risk Factors.	23
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	23
Item 3.	Defaults Upon Senior Securities.	23
Item 4.	Mine Safety Disclosure.	23
Item 5.	Other Information.	23
Item 6.	Exhibits.	23
	Signatures.	24
	Index of Exhibits.	25

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Condition
September 30, 2013 and 2012 (Unaudited) and December 31, 2012

	(Unaudited) September 30,		December 31,
	2013	2012	2012
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,240,730	\$ 2,379,565	\$ 2,286,226
Investments	2,506,463	2,032,598	1,869,888
Certificates of deposits in financial institutions	115,373	450,000	450,000
Inventories	8,382,287	5,569,887	5,939,186
Accounts receivable, net of allowance for doubtful accounts and discounts	11,313,652	10,002,065	8,723,737
Prepaid expenses and other current assets	88,629	45,350	97,138
Other receivables	89,100	3,946	8,825
Deferred income taxes	394,277	315,887	234,687
Refundable income taxes	423,242	84,828	84,828
Total current assets	\$ 24,553,753	\$ 20,884,126	\$ 19,694,515
Property and equipment, net	21,637,492	14,754,312	14,986,776
Intangible assets			
Goodwill and other non-amortizable brand assets	14,068,091	14,068,091	14,068,091
Other intangible assets, net of accumulated amortization of \$4,376,640 and \$3,662,477 at September 30, 2013 and 2012 and \$3,842,756 at December 31, 2012, respectively	3,929,360	4,643,523	4,463,242
Total intangible assets	17,997,451	18,711,614	18,531,333
Other Assets			
Long-term accounts receivable net of current portion	280,000	162,522	294,000
Total assets	\$ 64,468,696	\$ 54,512,574	\$ 53,506,624
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Current maturities of notes payable	\$ 878,088	\$ 580,781	\$ 542,981
Accounts payable	5,429,988	5,118,902	4,256,725
Accrued expenses	1,323,213	894,092	1,155,677
Accrued income taxes	1,292,762	1,341,652	254,311
Total current liabilities	8,924,051	7,935,427	6,209,694
Notes payable	9,214,853	5,096,675	4,955,945
Deferred income taxes	2,917,213	3,112,529	3,028,518
Total liabilities	21,056,117	16,144,631	14,194,157
Stockholders' equity			
Common stock, no par value; 40,000,000 shares authorized; 17,273,776 shares issued; 16,346,017 shares outstanding at September 30, 2013; 17,273,776 shares issued; 16,359,017 shares outstanding at September 30, 2012; 17,273,776 shares issued; 16,346,017 shares outstanding at December 31, 2012	6,509,267	6,509,267	6,509,267
Paid-in-capital	2,032,516	2,032,516	2,032,516
Treasury stock, at cost	(8,187,682)	(8,077,239)	(8,187,682)
Retained earnings	43,056,422	37,831,275	38,904,777

Accumulated other comprehensive income (loss), net of taxes	<u>2,056</u>	<u>72,124</u>	<u>53,591</u>
Total stockholders' equity	<u>43,412,579</u>	<u>38,367,943</u>	<u>39,312,469</u>
Total liabilities and stockholders' equity	<u>\$ 64,468,696</u>	<u>\$ 54,512,574</u>	<u>\$ 53,506,626</u>

- 3 -

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Income and Comprehensive Income
September 30, 2013 and 2012 (Unaudited)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2013	2012	2013	2012
Sales	<u>\$ 26,601,341</u>	<u>\$ 22,617,132</u>	<u>\$ 80,030,021</u>	<u>\$ 66,876,986</u>
Less: discounts and allowances	<u>(2,808,811)</u>	<u>(1,997,399)</u>	<u>(8,772,576)</u>	<u>(6,306,675)</u>
Net Sales	23,792,530	20,619,733	71,257,445	60,570,311
Cost of goods sold	16,513,357	13,342,566	47,217,179	38,771,897
Depreciation expense	<u>410,797</u>	<u>407,567</u>	<u>1,226,629</u>	<u>1,219,721</u>
Total cost of goods sold	<u>16,924,154</u>	<u>13,750,133</u>	<u>48,443,808</u>	<u>39,991,618</u>
Gross profit	6,868,376	6,869,600	22,813,637	20,578,693
Selling expenses	2,815,126	2,974,294	8,291,960	8,300,810
General and administrative	1,671,080	1,620,967	5,567,649	4,626,853
Amortization expense	<u>178,201</u>	<u>197,129</u>	<u>533,884</u>	<u>574,538</u>
Total Operating Expenses	4,664,407	4,792,390	14,393,493	13,502,201
Income from operations	2,203,969	2,077,210	8,420,144	7,076,492
Other income (expense):				
Interest and dividend income	36,535	16,270	82,166	52,321
Rental income	2,231	4,270	8,889	10,284
Interest expense	(59,887)	(41,897)	(133,610)	(136,000)
Gain (loss) on sale of investments, net, reclassified from OCI	161	4,024	121,441	26,415
Other income	<u>209,175</u>	<u>0</u>	<u>219,404</u>	<u>0</u>
Total other income (expense)	<u>188,215</u>	<u>(17,333)</u>	<u>298,290</u>	<u>(46,980)</u>
Income before provision for income taxes	2,392,184	2,059,877	8,718,434	7,029,512
Provision for income taxes	<u>702,257</u>	<u>657,697</u>	<u>3,258,928</u>	<u>2,483,216</u>
Net income	\$ 1,689,927	\$ 1,402,180	5,459,506	\$ 4,546,296
Basic and diluted earnings per common share	<u>0.10</u>	<u>0.09</u>	<u>0.33</u>	<u>0.28</u>
Weighted average number of shares outstanding	<u>16,346,017</u>	<u>16,366,974</u>	<u>16,346,017</u>	<u>16,380,793</u>
COMPREHENSIVE INCOME				
Net income	\$ 1,689,927	\$ 1,402,180	5,459,506	\$ 4,546,296
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investments (net of tax)	29,356	62,266	17,079	95,996
Less reclassification adjustment for (gains)				

losses included in net income (net of taxes)	<u>(91)</u>	<u>(2,274)</u>	<u>(68,614)</u>	<u>(14,924)</u>
Comprehensive income	<u>\$ 1,719,192</u>	<u>\$ 1,462,172</u>	<u>\$ 5,407,971</u>	<u>\$ 4,627,368</u>

- 4 -

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Nine Months Ended September 30, 2013 and 2012 (Unaudited)
and For the Year Ended December 31, 2012

	Common Stock, No Par Value 40,000,000 Shares Authorized		# of Shares of Treasury Stock	Common Stock	Paid In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax		Total
	# of Shares Issued	# of Shares Outstanding						(Loss),	Total	
Balances at December 31, 2011	17,273,776	16,409,317	864,459	\$6,509,267	\$2,032,516	\$ (7,606,974)	\$ 34,431,296	\$ (8,948)	\$ 35,357,157	
Redemption of stock	0	(63,300)	63,300	0	0	(580,708)	0	0	(580,708)	
Other comprehensive income (loss):										
Unrealized gains on securities, net of taxes	0	0	0	0	0	0	0	62,539	62,539	
Net income for the year ended December 31, 2012	0	0	0	0	0	0	5,619,798	0	5,619,798	
Dividends (\$.07) per share	0	0	0	0	0	0	(1,146,317)	0	(1,146,317)	
Balances at December 31, 2012	17,273,776	16,346,017	927,759	\$6,509,267	\$2,032,516	\$ (8,187,682)	\$ 38,904,777	\$ 53,591	\$ 39,312,469	
Balances at January 1, 2012	17,273,776	16,409,317	864,459	\$6,509,267	\$2,032,516	\$ (7,606,974)	\$ 34,431,296	\$ (8,948)	\$ 35,357,157	
Redemption of stock	0	(50,300)	50,300	0	0	(470,265)	0	0	(470,265)	
Other comprehensive income (loss):										
Unrealized gains on securities, net of taxes	0	0	0	0	0	0	0	81,072	81,072	
Net income for the nine months ended September 30, 2012	0	0	0	0	0	0	4,546,296	0	4,546,296	
Dividends (\$.07) per share	0	0	0	0	0	0	(1,146,317)	0	(1,146,317)	
Balances at September 30, 2012	17,273,776	16,359,017	914,759	\$6,509,267	\$2,032,516	\$(8,077,239)	\$ 37,831,275	\$ 72,124	\$ 38,367,943	

Balances at January 1, 2013	17,273,776	16,346,017	927,759	\$6,509,267	\$2,032,516	\$ (8,187,682)	\$ 38,904,777	\$	53,591	\$ 39,312,469
Other comprehensive income (loss):										
Unrealized gains on securities, net of taxes	0	0	0	0	0	0	0	0	(51,535)	(51,535)
Net income for the nine months ended September 30, 2013	0	0	0	0	0	0	5,459,506		0	5,459,506
Dividends (\$.08) per share	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,307,861)</u>		<u>0</u>	<u>(1,307,861)</u>
Balances at September 30, 2013	17,273,776	16,346,017	927,759	\$6,509,267	\$2,032,516	\$ (8,187,682)	\$ 43,056,422	\$	2,056	\$ 43,412,579

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2013 and 2012 (Unaudited)

	(Unaudited) September 30,	
	2013	2012
<u>Cash flows from operating activities:</u>		
Net income	\$ 5,459,506	\$ 4,546,296
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	1,760,513	1,794,259
Loss (gain) on sale of investments, net	(121,441)	(26,415)
Deferred income taxes	(231,218)	(458,424)
Bad Debt Expense	26,819	332,301
Loss (gain) on sale of equipment	(209,175)	
(Increase) decrease in operating assets:		
Accounts receivable	(2,612,905)	(2,106,020)
Other receivables	(80,275)	220,258
Inventories	(2,443,101)	(615,412)
Refundable income taxes	(338,414)	(43,512)
Prepaid expenses and other current assets	33,509	34,280
Increase (decrease) in operating liabilities:		
Accounts payable	1,173,263	732,663
Accrued expenses	167,536	340,367
Income taxes payable	1,038,451	1,341,652
Net cash provided by operating activities	3,623,068	6,092,293
<u>Cash flows from investing activities:</u>		
Purchases of investments	(2,877,968)	(1,092,976)
Proceeds from sale of investments	2,281,792	802,026
Redemption of certificates of deposits	334,627	(150,000)
Purchases of property and equipment	(8,205,669)	(775,210)
Proceeds from sale of equipment	537,500	0
Net cash used in investing activities	(7,929,718)	(1,216,160)
<u>Cash flows from financing activities:</u>		
Checks written in excess of bank balances	—	(592,040)
Purchases of treasury stock	—	(470,265)
Dividends paid	(1,307,861)	(1,146,317)
Net proceeds from debt issuance	4,975,000	0
Repayment of notes payable	(405,985)	(1,403,096)
Net cash used in financing activities	3,261,154	(3,611,718)
Net (decrease) increase in cash and cash equivalents	(1,045,496)	1,264,415
Cash and cash equivalents at the beginning of the period	2,286,226	1,115,150
Cash and cash equivalents at the end of the period	\$ 1,240,730	\$ 2,379,565

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2013 and 2012
and December 31, 2012

Note 1 – NATURE OF BUSINESS

Lifeway Foods, Inc. (the “Company” or “Lifeway”) 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 on the East Coast through local food stores. In addition, products are sold throughout the United States by distributors. The Company also distributes some of its products in London.

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 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 general 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. The unaudited consolidated financial statements contained in this Quarterly Report should be read in conjunction with the consolidated financial statements contained in our 2012 Annual Report on Form 10-K.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Helios Nutrition, Ltd., Pride of Main Street, L.L.C., Starfruit, L.L.C., Fresh Made, Inc. and Starfruit Franchisor, L.L.C., Lifeway First Juice, Inc., First Juice, Inc. and Lifeway Wisconsin, Inc. Lifeway Wisconsin, Inc. was created to facilitate the operation of a production facility in Wisconsin. All significant intercompany accounts and transactions have been eliminated.

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, 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.

Customer Concentration

Sales are predominately to companies in the retail food industry, located within the United States of America. Two major customers accounted for approximately 35 percent and 36 percent of gross sales for the nine months ended September 30, 2013 and 2012, respectively. These customers accounted for approximately 25 percent, 30 percent, and 33 percent of accounts receivable as of September 30, 2013, September 30, 2012, and December 31, 2012, respectively.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2013 and 2012
and December 31, 2012

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. Balances expected to be paid beyond one year are classified as long-term.

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

Purchased property and equipment are recorded at cost. 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:

<u>Category</u>	<u>Years</u>
Buildings and improvements	31 and 39
Machinery and equipment	5 – 12
Office equipment	5 – 7
Vehicles	5

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2013 and 2012
and December 31, 2012

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:

<u>Category</u>	<u>Years</u>
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.

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 returns are the 2010 and 2011 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.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2013 and 2012
and December 31, 2012

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Treasury stock

Treasury stock is recorded using the cost method.

Advertising and promotional costs

The Company expenses advertising costs as incurred. For the nine months ended September 30, 2013 and 2012 total advertising expenses were \$1,859,798 and \$1,977,611, 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, 2013 and 2012, diluted and basic earnings per share were the same, as the effect of dilutive securities options outstanding was not significant.

Correction of Prior Year Amounts

Management has restated the unaudited statements of income and comprehensive income for interim period ending September 30, 2012. During the period ending September 30, 2012, amounts related to costs of production of inventory were not presented as part of cost of goods sold and were erroneously included as general and administrative operation expenses in our previously issued financial statements (see Note 14). There was no impact on previously reported income, consolidated balance sheets or consolidated statement of cash flows.

Note 3 – INTANGIBLE ASSETS

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

	September 30, 2013		September 30, 2012		December 31, 2012	
	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 customer related intangibles	4,504,200	2,361,808	4,504,200	1,914,395	4,504,200	2,025,736
Lease acquisition	87,200	87,200	87,200	87,200	87,200	87,200
Customer relationship	985,000	579,264	985,000	506,180	985,000	526,701
Trade names	2,248,000	990,868	2,248,000	841,002	2,248,000	878,469
Formula	438,000	313,900	438,000	270,100	438,000	281,050
	<u>\$ 8,306,000</u>	<u>\$ 4,376,640</u>	<u>\$ 8,306,000</u>	<u>\$ 3,662,477</u>	<u>\$ 8,306,000</u>	<u>\$ 3,842,756</u>

Amortization expense is expected to be approximately the following for the 12 months ending September 30:

2014	\$ 716,258
2015	716,258
2016	708,958
2017	680,509
2018	600,405
Thereafter	506,972
	<u>\$ 3,929,360</u>

Amortization expense during the nine months ended September 30, 2013 and 2012 was \$533,884 and \$574,538, respectively.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2013 and 2012
and December 31, 2012

Note 4 – INVESTMENTS

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

<u>September 30, 2013</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Equities	\$ 887,418	\$ 115,298	\$ (29,256)	\$ 973,460
Mutual Funds	69,849	0	(1,965)	67,884
Preferred Securities	528,306	3,684	(26,363)	505,627
Corporate Bonds	1,017,252	1	(57,761)	959,492
Total	<u>\$ 2,502,825</u>	<u>\$ 118,983</u>	<u>\$ (115,345)</u>	<u>\$ 2,506,463</u>

<u>September 30, 2012</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Equities	\$ 698,444	\$ 128,530	\$ (11,971)	\$ 815,003
Mutual Funds	0	0	0	0
Preferred Securities	0	0	0	0
Corporate Bonds	1,178,762	41,825	(2,991)	1,217,596
Total	<u>\$ 1,877,206</u>	<u>\$ 170,355</u>	<u>\$ (14,962)</u>	<u>\$ 2,032,599</u>

<u>December 31, 2012</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Equities	\$ 639,974	\$ 90,875	\$ (5,190)	\$ 725,659
Corporate Bonds	1,135,064	16,212	(7,047)	1,144,229
Total	<u>\$ 1,775,038</u>	<u>\$ 107,087</u>	<u>\$ (12,237)</u>	<u>\$ 1,869,888</u>

Proceeds from the sale of investments were \$2,281,792 and \$802,026 for the nine months ended September 30, 2013 and 2012, respectively.

Gross gains of \$ 161,421 and \$43,367 and gross losses of \$39,980 and \$16,952 were realized on these sales during the nine months ended September 30, 2013 and 2012, respectively.

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, 2013 and 2012 and at December 31, 2012:

<u>September 30, 2013</u>	<u>Less Than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Equities	\$ 292,456	\$ (28,896)	\$ 21,409	\$ (359)	\$ 313,865	\$ (29,255)
Mutual Funds	50,080	(1,965)	0	0	50,080	(1,965)
Preferred Securities	276,933	(26,363)	0	0	276,933	(26,363)
Corporate Bonds	868,294	(54,667)	80,994	(3,094)	949,288	(57,761)
	<u>\$ 1,487,763</u>	<u>\$ (111,891)</u>	<u>\$ 102,403</u>	<u>\$ (3,453)</u>	<u>\$ 1,590,166</u>	<u>\$ (115,344)</u>

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2013 and 2012
and December 31, 2012

Note 4 – INVESTMENTS - Continued

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>September 30, 2012</u>						
Equities	\$ 19,437	\$ (10,998)	\$ 22,669	\$ (973)	\$ 42,106	\$ (11,971)
Mutual Funds	0	0	0	0	0	0
Preferred Securities	0	0	0	0	0	0
Corporate Bonds	81,472	(490)	149,626	(2,501)	231,098	(2,991)
	<u>\$ 100,909</u>	<u>\$ (11,488)</u>	<u>\$ 172,295</u>	<u>\$ (3,474)</u>	<u>\$ 273,204</u>	<u>\$ (14,962)</u>
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>December 31, 2012</u>						
Equities	\$ 63,620	\$ (3,745)	\$ 21,910	\$ (1,445)	\$ 85,530	\$ (5,190)
Corporate Bonds	301,229	(2,721)	193,930	(4,326)	495,159	(7,047)
	<u>\$ 364,849</u>	<u>\$ (6,466)</u>	<u>\$ 215,840</u>	<u>\$ (5,771)</u>	<u>\$ 580,689</u>	<u>\$ (12,237)</u>

Equities, Mutual Funds, Preferred Securities, and Corporate Bonds - The Company's investments in equity securities, mutual funds, preferred securities, and corporate bonds consist of investments in common stock, preferred stock and debt securities of companies in various industries. As of September 30, 2013, there were three corporate bond securities 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 did not consider any material investments to be other-than-temporarily impaired at September 30, 2013.

Note 5 – INVENTORIES

Inventories consist of the following:

	September 30,		December 31,
	2013	2012	2012
Finished goods	\$ 3,106,557	\$ 2,162,292	\$ 2,462,548
Production supplies	3,469,239	2,188,111	2,599,668
Raw materials	1,806,491	1,219,484	876,970
Total inventories	<u>\$ 8,382,287</u>	<u>\$ 5,569,887</u>	<u>\$ 5,939,186</u>

Note 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	September 30,		December 31,
	2013	2012	2012
Land	\$ 1,856,370	\$ 1,178,160	\$ 1,178,160
Buildings and improvements	14,921,016	11,713,436	11,904,919
Machinery and equipment	19,921,064	15,099,413	15,185,204
Vehicles	1,350,608	1,379,591	1,346,078
Office equipment	433,346	413,113	411,773
Construction in process	33,542	234,895	612,468
	<u>38,515,946</u>	<u>30,018,608</u>	<u>30,638,602</u>
Less accumulated depreciation	16,878,454	15,264,296	15,651,826
Total property and equipment	<u>\$ 21,637,492</u>	<u>\$ 14,754,312</u>	<u>\$ 14,986,776</u>

Lifeway completed the sale of Golden Guernsey's assets on July 2, 2013. The cost was approximately \$7.4 million and none of the purchased assets have been placed in service.

Depreciation expense during the nine months ended September 30, 2013 and 2012 was \$1,226,629 and \$1,219,721, respectively.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2013 and 2012
and December 31, 2012

Note 7 – ACCRUED EXPENSES

Accrued expenses consist of the following:

	September 30,		December 31,
	2013	2012	2012
Accrued payroll and payroll taxes	\$ 562,491	\$ 493,872	\$ 356,280
Accrued property tax	244,028	226,930	302,573
Other	516,694	173,290	496,824
	<u>\$ 1,323,213</u>	<u>\$ 894,092</u>	<u>\$ 1,155,677</u>

Note 8 – NOTES PAYABLE

Notes payable consist of the following:

	September 30,		December 31
	2013	2012	2012
Note payable to Private Bank in monthly installments of \$42,222, plus variable interest rate, currently at 2.67905%, with a balloon payment for the remaining balance. Collateralized by substantially all assets of the Company. In May 2013, the Company refinanced this note under similar terms which extended the maturity date to May 31, 2018.	\$ 4,985,556	\$ 5,534,445	\$ 5,365,556
Line of credit with Private Bank at variable interest rate, currently at 3.25%. The agreement has been extended with terms allowing borrowings up to \$50.0 million. Collateralized by substantially all assets of the Company and matures on May 31, 2014.	0	0	0
Note payable to Private Bank in monthly installments of \$27,778, plus variable interest rate, currently at 2.67905% with a balloon payment for the remaining balance, maturing on May 31, 2019, collateralized by substantially all assets of the Company	5,000,000	0	0
Notes payable to Ford Credit Corp. payable in monthly installments of \$1,778.23 at 5.99%, due July 2015, secured by transportation equipment.	36,919	55,382	50,871
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.	70,466	87,629	82,499
Total notes payable	10,092,941	5,677,456	5,498,926
Less current maturities	878,088	580,781	542,981
Total long-term portion	<u>\$ 9,214,853</u>	<u>\$ 5,096,675</u>	<u>\$ 4,955,945</u>

In accordance with the Private Bank agreements referenced above, the Company is subject to minimum fixed charged ratio and tangible net worth thresholds.

Maturities of notes payables are as follows:

For the Period Ended September 30,

2014	\$ 878,088
2015	875,575
2016	859,545
2017	854,180
2018	3,292,233

Thereafter	3,333,320
Total	<u>\$ 10,092,941</u>

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2013 and 2012
and December 31, 2012

Note 9 – COMMITMENTS AND CONTINGENCIES

The Company leases four stores for its Starfruit subsidiary. Total expense for these leases was approximately \$165,849, \$191,915 and \$379,348 for the nine months ended September 30, 2013 and 2012 and for the year ended December 31, 2012, respectively. The Company is also responsible for additional rent equal to real estate taxes and other operating expenses. Future annual minimum base rental payments for the leases as of September 30, 2013 are approximately as follows:

2014	\$	43,818
2015		45,130
2016		46,484
2017		47,878
2018		49,314
Thereafter		12,419
Total	<u>\$</u>	<u>245,043</u>

Note 10 – PROVISION FOR INCOME TAXES

The provision for income taxes consists of the following:

	For the Nine Months Ended September 30,	
	2013	2012
Current:		
Federal	\$ 2,892,620	\$ 2,318,292
State and local	597,526	623,348
Total current	3,490,146	2,941,640
Deferred	(231,218)	(458,424)
Provision for income taxes	<u>\$ 3,258,928</u>	<u>\$ 2,483,216</u>

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,			
	2013		2012	
	Amount	Percentage	Amount	Percentage
Federal income tax expense computed at the statutory rate	\$ 2,964,268	34.0%	\$ 2,390,034	34.0%
State and local tax expense, net	828,251	9.5%	667,804	9.5%
U.S. domestic manufacturers' deduction & other permanent differences	(444,711)	(5.1)%	(368,403)	(5.2)%
Change in tax estimate	(88,880)	(1.0)%	(206,219)	(2.9)%
Provision for income taxes	<u>\$ 3,258,928</u>	<u>37.4%</u>	<u>\$ 2,483,216</u>	<u>35.4%</u>

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2013 and 2012
and December 31, 2012

Note 10 – PROVISION FOR INCOME TAXES - Continued

Amounts for deferred tax assets and liabilities are as follows:

	September 30,		December 31,
	2013	2012	2012
Non-current deferred tax assets (liabilities) arising from:			
Temporary differences -			
Accumulated depreciation and amortization from purchase accounting adjustments	\$ (3,002,058)	\$ (3,279,737)	\$ (3,164,716)
Capital loss carry-forwards	84,845	167,208	136,198
Total non-current net deferred tax liabilities	<u>(2,917,213)</u>	<u>(3,112,529)</u>	<u>(3,028,518)</u>
Current deferred tax assets arising from:			
Unrealized losses (gain) on investments	(1,583)	(67,596)	(41,260)
Inventory	374,110	248,633	265,072
Allowance for doubtful accounts and discounts	21,750	134,850	10,875
Total current deferred tax assets	<u>394,277</u>	<u>315,887</u>	<u>234,687</u>
Net deferred tax liability	<u>\$ (2,522,936)</u>	<u>\$ (2,796,642)</u>	<u>\$ (2,793,831)</u>

Note 11 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and income taxes are as follows:

	For the Nine Months Ended September 30,	
	2013	2012
Interest	\$ 140,068	\$ 136,540
Income taxes	\$ 2,862,991	\$ 1,643,619

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, 2012 and at September 30, 2013 and 2012, there were no stock options outstanding or exercisable. There were approximately 940,000 shares available for issuance under the Plan at September 30, 2013.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2013 and 2012
and December 31, 2012

Note 13 – FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (“FASB”) *Accounting Standards Codification* (“ASC”) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2. Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of September 30, 2013 and 2012, and December 31, 2012.

The majority of the Company's short-term investments are classified within Level 1 or Level 2 of the fair value hierarchy. The Company's valuation of its Level 1 investments, which include mutual funds, is based on quoted market prices in active markets for identical securities. The Company's valuation of its Level 2 investments, which include certificates of deposits, is based on other observable inputs, specifically a valuation model which utilized vendor pricing for similar securities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2013 and 2012
and December 31, 2012

Note 13 – FAIR VALUE MEASUREMENTS – Continued

The following table sets forth by level, within the fair value hierarchy, the Company's financial assets at fair value as of September 30, 2013 and 2012 and for the year ended December 31, 2012. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

Assets and Liabilities at Fair Value as of September 30, 2013				
	Level 1	Level 2	Level 3	Total
Cash	\$ 1,240,730	\$ 0	\$ 0	\$ 1,240,730
Certificate of Deposits	0	115,159	0	115,159
Mutual Funds	67,884	0	0	67,884
Stocks	973,460	0	0	973,460
Preferred Securities	0	505,627	0	505,627
Corporate Bonds	0	959,492	0	959,492
Notes Payable	0	10,092,941	0	10,092,941

Assets and Liabilities at Fair Value as of September 30, 2012				
	Level 1	Level 2	Level 3	Total
Cash	\$ 2,379,565	\$ 0	\$ 0	\$ 2,379,565
Mutual Funds:				
Money Market	59,282	0	0	59,282
Equity Income	0	0	0	0
Bonds	0	0	0	0
Certificate of Deposits	0	438,062	0	438,062
Stocks	815,003	0	0	815,003
Preferred Stock	0	0	0	0
Corporate Bonds	0	1,217,596	0	1,217,596
Notes Payable	0	5,677,456	0	5,677,456

Assets and Liabilities as Fair Value as of December 31, 2012				
	Level 1	Level 2	Level 3	Total
Cash	\$ 2,286,226	\$ 0	\$ 0	\$ 2,286,226
Certificate of Deposits	0	439,982	0	439,982
Stocks	725,670	0	0	725,670
Corporate Bonds	0	1,144,229	0	1,144,229
Notes Payable	0	5,498,926	0	5,498,926

The Company's financial assets and liabilities also include accounts receivable, other receivables and, accounts payable for which carrying value approximates fair value. All such assets are valued using level 2 inputs.

Note 14 – RESTATEMENT OF 2012 QUARTERLY CONSOLIDATED FINANCIAL STATEMENT

The consolidated statements of income for the year-to-date period ended September 30, 2012, that were previously included in our Quarterly Reports on Forms 10-Q filed in 2012, were restated as a result of erroneous presentation of production activity within general and administrative operating expenses.

These restatements result in increases in cost of goods sold and corresponding decreases in general and administrative operating expenses. These restatements had no impact on our previously reported net income, condensed consolidated balance sheets or consolidated statements of cash flows.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2013 and 2012
and December 31, 2012

Note 14 – RESTATEMENT OF 2012 QUARTERLY CONSOLIDATED FINANCIAL STATEMENT - Continued

As detailed in the table below, these restatements impact the following consolidated statement of income line items:

	(Unaudited) Nine Months Ended September, 2012		
	As Previously Reported	Adjustment	As Restated
Income Statement			
Net Sales	\$ 60,570,311	\$ 0	\$ 60,570,311
COGS	\$ 38,299,212	\$ 1,692,406	\$ 39,991,618
Gross Profit	\$ 22,271,099	\$ (1,692,406)	\$ 20,578,693
Operating Expenses	\$ 15,194,607	\$ (1,692,406)	\$ 13,502,201
Income from Operations	\$ 7,076,492	\$ 0	\$ 7,076,492

	(Unaudited) Three Months Ended September, 2012		
	As Previously Reported	Adjustment	As Restated
Income Statement			
Net Sales	\$ 20,619,733	\$ 0	\$ 20,619,733
COGS	\$ 13,145,876	\$ 604,257	\$ 13,750,133
Gross Profit	\$ 7,473,857	\$ (604,257)	\$ 6,869,600
Operating Expenses	\$ 5,396,648	\$ (604,257)	\$ 4,792,390
Income from Operations	\$ 2,077,209	\$ 0	\$ 2,077,210

Note 15 – LITIGATION

The Company is named a party to lawsuits in the normal course of business. In the opinion of management, the resolution of these lawsuits will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Note 16 – RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS." This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. ASU 2011-04 became effective for the Company on January 1, 2012. Management adopted this statement effective January 1, 2012.

In February 2013, the Financial Accounting Standards Board ("FASB") amended the disclosure requirements regarding the reporting of amounts reclassified out of accumulated other comprehensive income. The amendment does not change the current requirement for reporting net income or other comprehensive income, but requires additional disclosures about items reclassified out of accumulated other comprehensive income, and the income statement line items impacted by the reclassifications. We adopted this standard effective January 1, 2013. Other than the additional disclosure requirements, the adoption of this standard did not have a material impact on our unaudited Consolidated Financial Statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.***Results of Operations*****Comparison of Quarter Ended September 30, 2013 to Quarter Ended September 30, 2012**

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, 2012.

Total consolidated gross sales increased by \$3,984,209 (approximately 18%) to \$26,601,341 during the three-month period ended September 30, 2013 from \$22,617,132 during the same three-month period in 2012. This increase is primarily attributable to increased sales and awareness of the Company's flagship line, Kefir, as well as ProBugs® Organic Kefir for kids and BioKefir™.

Total consolidated net sales increased by \$3,172,797 (approximately 15%) to \$23,792,530 during the three-month period ended September 30, 2013 from \$20,619,733 during the same three-month period in 2012.

Cost of goods sold as a percentage of net sales, excluding depreciation expense, were approximately 69% during the third quarter of 2013, compared to 65% during the same period in 2012. This was primarily attributable to a 35% increase in the cost of milk, the Company's largest raw material.

Total operating expenses decreased \$127,983 (approximately 3%) to \$4,664,407 during the third quarter of 2013, from \$4,792,390 during the same period in 2012. This decrease was primarily attributable to decreased selling expenses.

Total operating income increased by \$126,759 (approximately 6%) to \$2,203,969 during the third quarter of 2013, from \$2,077,210 during the same period in 2012.

During the three-month period ended September 30, 2013, the company sold certain assets that were acquired in the Golden Guernsey Wisconsin production facility in July 2013 for net sale proceeds of \$537,500. In connection with the sale of those assets, the company recognized a gain of approximately \$209,000 which is included in other income.

Income tax expense was \$702,257 or a 29% effective tax rate for the third quarter of 2013 compared to an income tax expense of \$657,697, or a 32% effective tax rate during the same period in 2012.

Total net income was \$1,689,927 or \$0.10 per diluted share for the three-month period ended September 30, 2013 compared to \$1,402,180 or \$0.09 per diluted share in the same period in 2012.

Comparison of Nine-Month Period Ended September 30, 2013 to Nine-Month Period Ended September 30, 2012

Total consolidated gross sales increased by \$13,153,035, (approximately 20%) to \$80,030,021 during the nine-month period ended September 30, 2013 from \$66,876,986 during the same nine-month period in 2012. This increase is primarily attributable to increased sales and awareness of flagship line, Kefir, as well as ProBugs® Organic Kefir for kids and BioKefir™.

Total consolidated net sales increased by \$10,687,134 (approximately 18%) to \$71,257,445 during the nine-month period ended September 30, 2013 from \$60,570,311 during the same nine-month period in 2012.

Cost of goods sold as a percentage of net sales, excluding depreciation expense, were approximately 66% during the nine-month period ended September 30, 2013, compared to approximately 64% during the same period in 2012. The cost of milk was approximately 25% higher during the nine month period ended September 30, 2013 when compared to the same period in 2012.

Total operating expenses as a percentage of net sales were approximately 20% during the nine-month period ended September 30, 2013 compared to approximately 22% during the same period in 2012. General and administrative expenses increased by \$940,796 (approximately 20%) to \$5,567,649 during the nine-month period ended September 30, 2013, from \$4,626,853 during the same period in 2012.

Total operating income increased by \$1,343,652 (approximately 19%) to \$8,420,144 during the nine-month period ended September 30, 2013, from \$7,076,492 during the same period in 2012.

During the nine-month period ended September 30, 2013, the company sold certain assets that were acquired in the Golden Guernsey Wisconsin production facility in July 2013 for net sale proceeds of \$537,500. In connection with the sale of those assets, the company recognized a gain of approximately \$209,000 which is included in other income.

Provision for income taxes was \$3,258,928 or a 37% effective tax rate, for the nine-month period ended September 30, 2013 compared with \$2,483,216 or a 35% tax rate, during the same period in 2012.

Total net income was \$5,459,506 or \$0.33 per share for the nine-month period ended September 30, 2013 compared to \$4,546,296 or \$0.28 per share in the same period in 2012.

Liquidity and Capital Resources

Sources and Uses of Cash

Net cash provided by operating activities was \$3,598,069 during the nine-months ended September 30, 2013 compared to \$6,092,293 during the same period in 2012. This decrease is primarily attributable to an increase in inventories of \$1,827,689.

Net cash used in investing activities was \$7,929,718 during the nine-months ended September 30, 2013 compared to net cash used in investing activities of \$1,216,160 during the same period in 2012. This decrease is primarily attributable to the increase in purchases of property and equipment of \$7,430,459.

The Company had a net decrease in cash and cash equivalents of \$1,164,834 during the nine month period ended September 30, 2013 compared to the same period in 2012. The Company had cash and cash equivalents of \$1,215,731 as of September 30, 2013 compared to cash and cash equivalents of \$2,379,565 as of September 30, 2012.

Assets and Liabilities

Total assets were \$64,468,696 as of September 30, 2013, which is an increase of \$9,956,122 when compared to September 30, 2012. This is primarily due to an increase in property and equipment, net of \$6,883,180 as of September 30, 2013 when compared to September 30, 2012. The increase is related to the purchase of the Golden Guernsey Dairy facility.

Total current liabilities were \$8,924,051 as of September 30, 2013, which is an increase of \$988,624 when compared to September 30, 2012. This is primarily due to a \$429,121 increase in accrued expenses.

Notes payable increased by \$4,118,178 as of September 30, 2013, when compared to September 30, 2012. The balance of the notes payable as of September 30, 2013 was \$9,214,853.

Total stockholder's equity was \$43,412,579 as of September 30, 2013, which is an increase of \$5,044,636 when compared to September 30, 2012. This is primarily due to an increase in retained earnings of \$5,225,147 when compared to September 30, 2012.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure material information required to be disclosed in our reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial and accounting officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, we recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of September 30, 2013 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 weakness described below. 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.

Material Weaknesses

Management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2012. In making the assessment, management used the framework in "Internal Control –Integrated Framework" promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria. Based on that assessment, our principal executive officer and principal financial and accounting officer concluded that our internal control over financial reporting was not effective as of December 31, 2012 because a material weakness existed in our internal control over financial reporting related to the classification of certain costs and expenses.

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. This quarterly report on Form 10-Q does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting.

Description of Material Weaknesses at December 31, 2012

In 2012 the Company did not maintain effective monitoring controls over financial reporting relating to the classification of certain costs and expenses. Specifically, the Company and its auditors determined during the audit of our financial statements that, in connection with the preparation of the Company's Annual Report on Form 10-K for fiscal year ended December 31, 2012, certain post-closing adjustments were required with respect to our classification of certain direct manufacturing costs from general and administrative to cost of goods sold, primarily consisting of utilities, wage related expenses and overhead.

Remediation of Material Weakness

In light of the material weakness described above, we took steps to remediate our material weakness. Management enhanced the review process by improving real time general ledger monitoring and wage detail in the financial statement functionality of our accounting software, allowing for improved internal review of the source information which goes in to the completion of the financial statements. More specifically, management has focused on improving specific coding of direct expenses as compared to general and administrative expenses.

Management is committed to continuous improvement of the Company's internal control processes. Under the direction of the Audit Committee, management will continue to review and make changes it deems necessary to the overall design of the Company's internal control over financial reporting, including implementing further improvements in policies and procedures and taking additional measures to address any control deficiencies.

Conclusion

We believe the measures described above will remediate the material weaknesses we have identified and will continue to strengthen our internal controls over financial reporting. We are committed to continually improving our internal control processes and will diligently and vigorously review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal controls over financial reporting, we may determine that additional measures are necessary to address control deficiencies. Moreover, we may decide to modify certain of the remediation measures described above.

Changes in Internal Control over Financial Reporting

Except as discussed above there were no changes in our internal control over financial reporting that occurred during the third quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS.**

Lifeway is not party to any material pending legal proceedings. Lifeway is from time to time engaged in litigation matters arising in the ordinary course of business none of which presently is expected to have a material adverse effect on its business results or operations.

ITEM 1A. RISK FACTORS.

Not applicable.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURE.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

- 4.1 Note made on September 4, 2013 by Lifeway Foods, Inc., and its wholly-owned subsidiaries, Fresh Made Inc., Helios Nutrition Limited, Pride of Main Street Dairy, LLC, Starfruit, LLC and Lifeway Wisconsin, Inc. for the benefit of The Private Bank and Trust Company (incorporated by reference to Exhibit 4.1 on Lifeway's Current Report on Form 8-K filed on September 20, 2013 (File No. 000-17363)).
- 10.1 Mortgage, dated as of September 4, 2013 executed by Lifeway Wisconsin, Inc. to and for the benefit of The Private Bank and Trust Company (incorporated by reference to Exhibit 10.1 on Lifeway's Current Report on Form 8-K filed on September 20, 2013 (File No. 000-17363)).
- 10.2 Assignment of Rents and Leases dated September 4, 2013 executed by Lifeway Wisconsin, Inc. for the benefit of The Private Bank and Trust Company (incorporated by reference to Exhibit 10.2 on Lifeway's Current Report on Form 8-K filed on September 20, 2013 (File No. 000-17363)).
- 10.3 Environmental Indemnity Agreement dated September 4, 2013, jointly and severally executed by Lifeway Foods, Inc., and its wholly-owned subsidiaries, Fresh Made Inc., Helios Nutrition Limited, Pride of Main Street Dairy, LLC, Starfruit, LLC and Lifeway Wisconsin, Inc. for the benefit of The Private Bank and Trust Company (incorporated by reference to Exhibit 10.3 on Lifeway's Current Report on Form 8-K filed on September 20, 2013 (File No. 000-17363)).
- 10.4 Eighth Modification to Loan and Security Agreement dated September 4, 2013 by and among The Private Bank and Trust Company, Lifeway Foods, Inc., Fresh Made, Inc., Helios Nutrition Limited, Pride of Main Street Dairy, LLC, Starfruit, LLC and Lifeway Wisconsin, Inc.
- 10.5 Second Amendment to Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing dated September 4, 2013 by and between Lifeway Foods, Inc. and The Private Bank and Trust Company.
- 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.

99.1 Press Release dated November 14, 2013.

101 Interactive Data Files.

SIGNATURES

Pursuant to 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.

Date: November 14, 2013

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

Date: November 14, 2013

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

INDEX OF EXHIBITS

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EX-10.4 2 exh10-4_17568.htm EIGHTH MODIFICATION TO LOAN AND SECURITY AGREEMENT

EXHIBIT 10.4

EIGHTH MODIFICATION TO
LOAN AND SECURITY AGREEMENT

This Eighth Modification to Loan and Security Agreement (this "Amendment") is entered into as of September 4, 2013, by and among THE PRIVATEBANK AND TRUST COMPANY (the "Bank"), LIFEWAY FOODS, INC., an Illinois corporation ("Lifeway"), FRESH MADE, INC., a Pennsylvania corporation ("FMI"), HELIOS NUTRITION LIMITED, a Minnesota corporation ("Helios"), PRIDE OF MAIN STREET DAIRY, LLC, a Minnesota limited liability company ("Pride"), and STARFRUIT, LLC, an Illinois limited liability company ("Starfruit"), and LIFEWAY WISCONSIN, INC., an Illinois corporation ("LWI" and together with Lifeway, FMI, Helios, Pride and Starfruit being sometimes collectively referred to as the "Borrowers").

RECITALS

WHEREAS, the Bank and the Borrowers (other than LWI) previously entered into a Loan and Security Agreement dated February 6, 2009, as amended by that certain First Modification to Loan and Security Agreement dated as of August 13, 2009, by that certain Second Modification to Loan and Security Agreement dated November 12, 2009, by that certain Third Modification to Loan and Security Agreement dated February 6, 2010, by that certain Fourth Modification to Loan and Security Agreement dated as of April 20, 2011, by that certain Fifth Modification to Loan and Security Agreement dated as of June 20, 2011, by that certain Sixth Modification to Loan and Security Agreement dated as of June 13, 2012 and by that certain Seventh Modification to Loan and Security Agreement dated as of May 14, 2013 (as modified, the "Loan Agreement"), pursuant to which the Bank made available to the Borrowers a credit facility.

WHEREAS, the Borrowers desire, and the Bank is willing, to extend the 2013 Term Loan (as hereinafter defined) to Borrowers, all upon and subject to the terms and conditions set forth in this Amendment; and WHEREAS, this Amendment shall constitute a Loan Document and these Recitals shall be construed as part of this Amendment.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties hereto hereby agree as follows:

1. Definitions.

(a) Undefined Terms. Unless the context otherwise provides or requires, capitalized terms used herein which are not defined herein shall have the meanings ascribed to them in the Loan Agreement; provided, however, that all references in the Loan Agreement to (a) "Obligations" shall, in addition to the definition set forth in the Loan Agreement include, but not be limited to, the duties and obligations of the Borrowers under this Amendment, and (b) "Loan Documents" shall, in addition to the definition set forth in the Loan Agreement include, but not be limited to, this Amendment and the documents and instruments to be delivered pursuant to this Amendment.

(b) Additional Defined Terms. When used herein and in the Loan Agreement, the following additional terms are added to Section 1 (Definitions) of the Loan Agreement and shall have the following meanings:

“2013 Term Loan” shall mean the Term Loan in the amount of \$5,000,000 made by the Bank to Borrowers on or about the date hereof and secured by a mortgage or deed of trust on the Waukesha Property.

“2013 Term Loan Note” shall mean the Promissory Note executed by the Borrowers in connection with the 2013 Term Loan.

“Commodity Exchange Act” means the Commodity Exchange Act (7 U.S.C. § 1 et seq.), as amended from time to time, and any successor statute.

“Excluded Hedging Obligation” means, with respect to any Hedging Guarantor, any Hedging Obligation if, and to the extent that, all or a portion of the guarantee by such Hedging Guarantor of, or the grant by such Hedging Guarantor of a security interest to secure, such Hedging Obligation (or any guarantee thereof) is or becomes illegal under the Commodity Exchange Act or any rule, regulation or order of the Commodity Futures Trading Commission (or the application or official interpretation of any thereof) (a) by virtue of such Hedging Guarantor’s failure for any reason to constitute an “eligible contract participant” as defined in the Commodity Exchange Act and the regulations thereunder at the time the Guarantee or the grant of such security interest becomes or would become effective with respect to such Hedging Obligation or (b) in the case of a Hedging Obligation subject to a clearing requirement pursuant to Section 2(h) of the Commodity Exchange Act (or any successor provision thereto), because such Hedging Guarantor is a “financial entity,” as defined in Section 2(h)(7)(C)(i) the Commodity Exchange Act (or any successor provision thereto), at the time the guarantee of such Hedging Guarantor becomes or would become effective with respect to such related Hedging Obligation. If a Hedging Obligation arises under a master agreement governing more than one swap, such exclusion shall apply only to the portion of such Hedging Obligation that is attributable to swaps for which such guarantee or security interest is or becomes illegal.

“Hedging Guarantor” means any Borrower or any other Obligor who guarantees the Hedging Obligations of any other Borrower or Subsidiary to the Bank or any of its Affiliates. For the avoidance of doubt, any Borrower or other Obligor that is a direct obligor of the Hedging Obligations shall not be deemed a Hedging Guarantor in respect of such Hedging Obligations to the extent such Borrower is such a direct obligor of such Hedging Obligations.

“Waukesha Property” shall mean that property owned by LWI located at 2101 Delafield Street, Waukesha, Wisconsin 53188.

(c) Amended and Restated Defined Terms. When used herein and in the Loan Agreement, the following terms shall have the following amended and restated meanings:

“Hedging Obligation” shall mean every obligation of any Borrower or other Obligor whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (a) any and all Hedging Agreements, (b) any and all cancellations, buy-backs, reversals, terminations or assignments of any Hedging Agreements and (c) any agreement, contract or transaction that constitutes a “swap” within the meaning of section 1 a(47) of the Commodity Exchange Act; provided, however, that the definition of “Hedging Obligation” shall not create any guarantee by any Hedging Guarantor of (or grant of security interest by any Hedging Guarantor to support, as applicable) any Excluded Hedging Obligations of such Hedging Guarantor for purposes of determining any obligations of any Hedging Guarantor.

“Loans” shall mean, collectively, all Revolving Loans, the Term Loan and 2013 Term Loan made by the Bank to the Borrowers and all Letter of Credit Obligations, under and pursuant to this Agreement.

“Note” and “Notes” shall mean, respectively, each of and collectively, the Revolving Note in the Form of Exhibit A, the Term Note in the form of Exhibit B and the 2013 Term Loan Note.

“Obligations” shall mean the Loans, the Notes, all interest accrued thereon (including interest which would be payable as post-petition in connection with any bankruptcy or similar proceeding, whether or not permitted as a claim thereunder), any fees due the Bank hereunder, any expenses incurred by the Bank hereunder, including without limitation, all liabilities and obligations under this Agreement, under any other Loan Document, any reimbursement obligations of any of the Borrowers in respect of Letters of Credit and surety bonds, all Hedging Obligations of any of the Borrowers which are owed to the Bank or any Affiliate of the Bank, and all Bank Product Obligations of any of the Borrowers, and any and all other liabilities and obligations owed by any of the Borrowers to the Bank from time to time, howsoever created, arising or evidenced, whether direct or indirect, joint or several, absolute or contingent, now or hereafter existing, or due or to become due, together with any and all renewals, extensions, restatements or replacements of any of the foregoing. Notwithstanding the foregoing, the definition of “Obligations” shall not create any guarantee by any Hedging Guarantor of (or grant of security interest by any Hedging Guarantor to support, as applicable) any Excluded Hedging Obligations of such Hedging Guarantor for purposes of determining any obligations of any Hedging Guarantor.

“Qualified ECP Guarantor” means, in respect of any Hedging Obligation, each Borrower or other Obligor that has total assets exceeding \$10,000,000 at the time the relevant guarantee or grant of the relevant security interest becomes or would become effective with respect to such Hedging Obligation or such other Person as constitutes an “eligible contract participant” under the Commodity Exchange Act or any regulations promulgated thereunder and can cause another Person to qualify as an “eligible contract participant” at such time by entering into a keepwell under Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

2. Amendment to Loans, Notes and Schedules.

(a) The Borrowers covenant and agree (i) to apply the net proceeds of the 2013 Term Loan to reduce the outstanding principal balance of the Revolving Loans (and Borrowers may retain any net proceeds remaining after so reducing the principal balance of the Revolving Loan) and (ii) that each of the Loans is cross-defaulted and cross-collateralized with each other Loan.

(b) Section 9.1(a) of the Loan Agreement is amended and restated as follows:

(a) the Obligations under this Agreement, the other Loan Documents and the 2013 Term Loan;

(c) A new Section 13.9 is added to the Loan Agreement as follows:

13.9 Qualified ECP Guarantor Undertaking. Each Qualified ECP Guarantor hereby jointly and severally absolutely, unconditionally and irrevocably undertakes to provide such funds or other support as may be needed from time to time by each other Obligor to honor all of its guarantee obligations under this Section 13 in respect of Hedging Obligations (provided, however, that each Qualified ECP Guarantor shall only be liable under this Section 13.9 for the maximum amount of such liability that can be hereby incurred without rendering its obligations under this Section 13.9 voidable under applicable law relating to fraudulent conveyance or fraudulent transfer, and not for any greater amount). The obligations of each Qualified ECP Guarantor under this Section 13.9 shall remain in full force and effect until the commitment of the Bank to make the Loans has been irrevocably terminated, the Obligations have been repaid in full and each Borrower's obligations under this Agreement have been discharged. Each Qualified ECP Guarantor intends that this Section 13.9 shall be deemed to constitute a "keepwell, support, or other agreement" for the benefit of each other Credit Party for all purposes of Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

(d) Schedules 6.1 (Excluded Collateral), 7.1 (Borrower Organization Identification Numbers), 7.6 (Capital Securities), 7.9 (Litigation and Contingent Liabilities), 7.12 (Environmental Matters), 7.22 (Deposit Accounts), 7.23 (Location of All. Collateral), 7.27 (Real Property), 8.23 (Excluded Bank Accounts), 9.1 (Debt), 9.2 (Permitted Liens), and 9.3 (Investments) to the Loan Agreement are hereby deleted in their entirety and replaced with Schedules 6.1, 7.1, 7.6, 7.9, 7.12, 7.22, 7.23, 7.27, 8.23, 9.1, 9.2 and 9.3 attached hereto.

3. Representations and Warranties of Borrowers.

(a) The Recitals in this Amendment are true and correct in all respects. All representations and warranties of each Borrower in the Loan Agreement and in the other Loan Documents to which each Borrower is a party are incorporated herein in full by this reference and are true and correct in all material respects as of the date hereof, except to the extent that any such representation or warranty expressly relates to an earlier date.

(b) After, giving effect to this Amendment, no Event of Default or Unmatured Event of Default has occurred and is continuing.

(c) Each Borrower has the power, and has been duly authorized by all requisite action, to execute and deliver this Amendment. This Amendment has been duly executed by each Borrower.

(d) This Amendment is the legal, valid and binding obligation of each Borrower, enforceable against each Borrower and each of the other Borrowers in accordance with their respective terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium, or similar law affecting creditors' rights generally.

(e) The execution, delivery and performance of this Amendment do not and will not (i) violate any law, rule, regulation or court order to which any of the Borrowers is subject; (ii) conflict with or result in a breach of the certificate of formation or incorporation, bylaws, limited liability company agreement or other organizational documents of any of the Borrowers or any other agreement or instrument to which it is party or by which the properties of any of the Borrowers is bound; or (iii) result in the creation or imposition of any Lien on any property of any of the Borrowers, whether now owned or hereafter acquired, other than Liens in favor of the Bank.

(f) No consent or authorization of, filing with or other act by or in respect of any Person is required in connection with the execution, delivery or performance by each of the Borrowers, or the validity or enforceability, of this Amendment, or the consummation of the transactions contemplated hereby.

4. Conditions Precedent to Effectiveness. This Amendment shall be effective on the date when each of the following conditions shall have been satisfied in the sole discretion of the Bank:

(a) Amendment. Each of the Borrowers and the Bank shall have delivered to the Bank executed counterparts of this Amendment.

(b) 2013 Term Loan. The Bank has funded the 2013 Term Loan and the Borrowers have executed and delivered all documents required by the Bank in connection therewith.

(c) Secretary and Manager Certificates. With respect to each Borrower, (i) good standing certificates in its state of incorporation (or formation) and in each other state requested by the Bank; and (ii) certification that the certificates delivered by such Borrower on or about April 20, 2011, remain in full force and effect (it being understood that the Bank may conclusively rely on each such certificate until formally advised by a like certificate of any changes therein), all certified by its secretary or an assistant secretary or manager (or similar officer) as being in full force and effect without modification; and

(d) Other Documents. The Borrowers shall have delivered to the Bank such other agreements, certificates, instruments and other documents as the Bank may reasonably request to accomplish the purposes of this Amendment.

5. Reference to and Effect on Loan Documents.

(a) Ratification. Except as specifically provided in this Amendment, the Loan Agreement and the other Loan Documents shall remain in full force and effect and each Borrower hereby ratifies and confirms each such Loan Document. Without limiting the generality of the foregoing, the Borrowers are and remain jointly and severally liable for the Obligations under the Loan Agreement and Notes as if the Borrowers were signatories thereto.

(b) No Waiver. The execution, delivery and effectiveness of this Amendment shall not operate as a waiver or forbearance of any right, power or remedy of the Bank under the Loan Agreement or any of the other Loan Documents, or, except as expressly provided in herein, constitute a consent, waiver or modification with respect to any provision of the Loan Agreement or any of the other Loan Documents. Upon the effectiveness of this Amendment each reference in (a) the Loan Agreement to "this Agreement," "hereunder," "hereof," or words of similar import and (b) any other Loan Document to "the Agreement" shall, in each case and except as otherwise specifically stated therein, mean and be a reference to the Loan Agreement as amended and modified hereby.

6. Entire Agreement. This Amendment, including all annexes, exhibits, schedules and other documents incorporated by reference herein or delivered in connection herewith, constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all other understandings, oral or written, with respect to the subject matter hereof.

7. Fees and Expenses. As provided in the Loan Agreement, the Borrowers agree to pay on demand all fees, costs and expenses incurred by the Bank in connection with the preparation, execution and delivery of this Amendment.

8. Severability. Wherever possible, each provision of this Amendment shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Amendment shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Amendment.

9. Conflict of Terms. Except as otherwise provided in this Amendment, if any provision contained in this Amendment is in conflict with, or inconsistent with, any provision in any of the other Loan Documents, the provision contained in this Amendment shall govern and control.

10. Successors and Assigns. This Amendment shall inure to the benefit of and be binding upon the successors and permitted assigns of the Bank and shall be binding upon the successors and assigns of each Borrower.

11. Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which taken together shall be one and the same instrument. Signature pages may be detached from multiple separate counterparts and attached to a single counterpart. Delivery of an executed signature page of this Amendment by facsimile transmission or electronic transmission (such as fax or e-mail) shall be as effective as delivery of a manually executed counterpart thereof.

12. Headings. The paragraph headings used in this Amendment are for convenience only and shall not affect the interpretation of any of the provisions hereof.

13. Applicable Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS SET FORTH IN THE CREDIT AGREEMENT, OR, IF NO JURISDICTION IS SET FORTH THEREIN, BY THE INTERNAL LAWS (AS OPPOSED TO CONFLICT OF LAWS PROVISIONS) OF THE STATE OF ILLINOIS.

14. Forum Selection and Consent to Jurisdiction. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AMENDMENT OR ANY OTHER LOAN DOCUMENT, SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF ILLINOIS OR IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS; PROVIDED THAT NOTHING IN THIS AMENDMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE THE BANK FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION. EACH OF THE BORROWERS HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF ILLINOIS AND OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE. EACH OF THE BORROWERS FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF ILLINOIS. EACH OF THE BORROWERS HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

15. Waiver of Jury Trial. THE BANK AND EACH OF THE BORROWERS, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, EACH KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE IRREVOCABLY, ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AMENDMENT, ANY NOTE, ANY OTHER LOAN DOCUMENT, ANY OF THE OTHER OBLIGATIONS, THE COLLATERAL, OR ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HERewith OR THEREWITH OR ARISING FROM ANY LENDING RELATIONSHIP EXISTING IN CONNECTION WITH ANY OF THE FOREGOING, OR ANY COURSE OF CONDUCT OR COURSE OF DEALING IN WHICH THE BANK AND ANY OF THE BORROWERS ARE ADVERSE PARTIES, AND EACH AGREE THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE BANK ENTERING INTO THIS AMENDMENT.

16. Release of Claims. In consideration of the execution and delivery of this Amendment by the Bank, the sufficiency of which is acknowledged, and excepting only the contractual obligations respecting future performance by the Bank arising under the Loan Agreement and the Loan Documents, each of the Borrowers hereby irrevocably releases and forever discharges the Bank and each of its affiliates, subsidiaries, successors, assigns, directors, officers, employees, agents, representatives and attorneys (each, a "Released Person") of and from all damages, losses, claims, demands, liabilities, obligations, actions and causes of action whatsoever which such Borrowers may now have or claim to have on and as of the date hereof against any Released Person, whether presently known or unknown, liquidated or unliquidated, suspected or unsuspected, contingent or non-contingent, and of every nature and extent whatsoever (collectively, "Claims"). Each Borrower jointly and severally represents and warrants to the Bank that it has not granted or purported to grant to any other Person any interest whatsoever in any Claim, as security or otherwise. The Borrowers shall jointly and severally indemnify, defend and hold harmless each Released Person from and against any and all Claims and any loss, cost, liability, damage or expense (including reasonable attorneys' fees and expenses) incurred by any Released Person in investigating, preparing for, defending against, providing evidence or producing documents in connection with or taking other action in respect of any commenced or threatened Claim.

EACH BORROWER AGREES TO ASSUME THE RISK OF ANY AND ALL UNKNOWN, UNANTICIPATED OR MISUNDERSTOOD DEFENSES, CLAIMS, CONTRACTS, LIABILITIES, INDEBTEDNESS AND OBLIGATIONS WHICH ARE RELEASED, WAIVED AND DISCHARGED BY THIS AMENDMENT. EACH BORROWER HEREBY WAIVES AND RELINQUISHES ALL RIGHTS AND BENEFITS WHICH IT MIGHT OTHERWISE HAVE UNDER ANY CIVIL CODE OR ANY SIMILAR LAW, TO THE EXTENT SUCH LAW MAY BE APPLICABLE, WITH REGARD TO THE RELEASE OF SUCH UNKNOWN, UNANTICIPATED OR MISUNDERSTOOD DEFENSES, CLAIMS, CONTRACTS, LIABILITIES, INDEBTEDNESS AND OBLIGATIONS. TO THE EXTENT THAT SUCH LAWS MAY BE APPLICABLE, EACH BORROWER WAIVES AND RELEASES ANY RIGHT OR DEFENSE WHICH IT MIGHT OTHERWISE HAVE UNDER ANY OTHER LAW OR ANY APPLICABLE JURISDICTION WHICH MIGHT LIMIT OR RESTRICT THE EFFECTIVENESS OR SCOPE OF ANY OF THEIR WAIVERS OR RELEASES HEREUNDER.

[Signature page(s) follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first written above.

THE BANK:

THE PRIVATEBANK AND TRUST COMPANY

By: /s/ Douglas W. Buchler
Authorized Officer

THE BORROWERS:

LIFEWAY FOODS, INC.

By: /s/ Julie Smolyansky
Title: President

FRESH MADE, INC.

By: /s/ Edward Smolyansky
Title: President

HELIOS NUTRITION LIMITED

By: /s/ Edward Smolyansky
Title: CFO and Secretary

PRIDE OF MAIN STREET DAIRY, LLC

By: /s/ Edward Smolyansky
Title: Manager

STARFRUIT, LLC

By: /s/ Edward Smolyansky
Title: Manager

LIFEWAY WISCONSIN, INC.

By: /s/ Edward Smolyansky
Title: President

SCHEDULE 6.1

Excluded Collateral

Real property owned by Freshmade and located at 810-820 Bleigh Avenue, Philadelphia, Pennsylvania.

The following Morgan Stanley accounts and amounts held therein:

Lifeway Foods, Inc.	Account No. 433-083275
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The following Barclays accounts and the amounts held therein:

Lifeway Foods, Inc.	Account No. 832-94962
Lifeway Foods, Inc.	Account No. 832-94983
Lifeway Foods, Inc.	Account No. 832-94984

The following UBS accounts and amounts held therein:

Lifeway Foods, Inc.	Account No. NI163 5F3
Lifeway Foods, Inc.	Account No. NI1636F3
Lifeway Foods, Inc.	Account No. NI1637F3

SCHEDULE 7.1

Borrower Organization Identification Numbers

<u>Borrower</u>	<u>Jurisdiction</u>	<u>Organization Identification Number</u>
Lifeway Foods, Inc.	Illinois	5425-124-6
Fresh Made, Inc.	Pennsylvania	822425 9
Helios Nutrition Limited	Minnesota	P-79
Pride of Main Street Dairy, LLC	Minnesota	183 91-LLC
Starfruit, LLC	Illinois	02155133
Lifeway Wisconsin, Inc.	Illinois	69019633

SCHEDULE 7.6

Capital Securities

Borrower	# of Authorized Shares	# of Issued Shares
Lifeway Foods, Inc.	22,500,000	16,867,890*
Fresh Made, Inc.	10,000	10,000
Helios Nutrition Limited	15,000,000	809,888
Lifeway Wisconsin, Inc.	10,000	1,000

*Weighted average number of shares outstanding as of the 9 month period ending September 30, 2008.

Borrower	# of Membership Interests
Pride of Main Street Dairy, LLC	3,433,400
Starfruit, LLC	100

SCHEDULE 7.9

Litigation and Contingent Liabilities

1. Keatley, et al. v. Lifeway Foods, Inc., class action pending in the U.S. District Court for the Northern District of Illinois, alleging false marketing.
 2. Phelan v. Lifeway Foods, Inc., class action pending with the Superior Court of the State of California, County of San Francisco, alleging false and misleading advertising as to health benefits.
 3. AptarGroup, Inc. v. Lifeway Foods, Inc., pending in the U.S. District Court for the Northern District of Illinois, alleging patent infringement.
-

SCHEDULE 7.12

Environmental Matters

1. Phase I Environmental Site Assessment of 6431 West Oakton Street, Morton Grove, Illinois, prepared by The English Company, dated as of October 20, 2008, and known as Project No. 2718-544.

2. Limited Subsurface Investigation of 6431 West Oakton Street, Morton Grove, Illinois, prepared by The English Company, dated as of December 30, 2008, and known as Project No. 2751-554.

3. Phase I Environmental Site Assessment of 6101 Gross Point Road, Niles, Illinois, prepared by Advanced Environmental Corporation, dated as of July 6, 2005, and known as Project No. 05.21080092.

4. Phase I Environmental Site Assessment of 7625 North Austin Avenue, Skokie, Illinois, prepared by The English Company, dated as of October 20, 2008, and known as Project No. 2717-544.

5. Phase I Environmental Site Assessment and Limited Environmental Compliance Review of 810-820 Bleigh Avenue, Philadelphia, Pennsylvania, prepared by Environ International Corporation, dated as of November, 2008, and known as Project No. 02-21727A.

6. Geophysical Investigation Report of 810-820 Bleigh Avenue, Philadelphia, Pennsylvania, prepared by Enviroprobe Service, Inc., dated as of December 12, 2008.

7. Letter from Environ International Corporation, dated as of January 6, 2009, and addressed to Ted Esborn, Esq. of McDonald Hopkins, with respect to 810-820 Bleigh Avenue, Philadelphia, Pennsylvania.

8. Letter from Environ International Corporation, dated as of December 8, 2008, and addressed to Ted Esborn, Esq. of McDonald Hopkins, with respect to 810-820 Bleigh Avenue, Philadelphia, Pennsylvania.

9. Letter from Environ International Corporation dated as of December 15, 2008, and addressed to Ted Esborn, Esq. of McDonald Hopkins, with respect to 810-820 Bleigh Avenue, Philadelphia, Pennsylvania.

10. Phase I Environmental Site Assessment of 214 Main Street South, Sauk Centre, Minnesota, prepared by Widseth Smith Nolting, dated as of April, 2000, and known as WSN No. 260B676.

11. Phase I Environmental Site Assessment of 2101 Delafield Street, Waukesha, Wisconsin, prepared by Vieau Associates Inc. dated as of March 26, 2013.

12. Limited Subsurface Investigation Report of 2101 Delafield Street, Waukesha, Wisconsin, dated July 16, 2013, prepared by EBI Consulting.

SCHEDULE 7.22

Deposit Accounts

Lifeway Foods, Inc.	The PrivateBank, 70 West Madison, Chicago, IL	2275025	Business Checking
Fresh Made, Inc.	The PrivateBank, 70 West Madison, Chicago, IL	2197617	Business Checking
Pride of Main Street Dairy	The PrivateBank, 70 West Madison, Chicago, IL	2271136	Business Checking
	Minnesota National Bank, 235 Main St, Sauk Centre MN 56378	2186585	Business Checking
Helios Nutrition	None		
Starfruit LLC	Chase, Chicago IL	827403254	Business Checking (Master)
		863559795	Business Checking (Block 37)
		863559829	Business Checking (Division)
		863559787	Business Checking (Halsted)
		863559449	Business Checking (Merchandise Mart)
964691307	Business Checking (Truck)		
Lifeway Wisconsin, Inc.	The PrivateBank, 70 West Madison, Chicago, IL	2346517	

SCHEDULE 7.23

Location of All Collateral

Lifeway Foods, Inc.	6431 W. Oakton St, Morton Grove, IL 60053 Cook 6101 W. Gross Point Rd, Niles, IL 7625 N. Austin Ave, Skokie, IL 60077 Cook 214 Main Street S, Sauk Centre, MN 56378
Fresh Made, Inc.	810 Bleigh St, Philadelphia, PA 19111
Pride of Main Street Dairy	214 Main Street S, Sauk Centre, MN 56378
Helios Nutrition	214 Main Street S, Sauk Centre, MN 56378
Starfruit LLC	1745 W. Division St, Chicago, IL 60612 2142 N. Halsted, Chicago, IL 60614 108 N. State, Chicago, IL 60602 222 Merchandise Mart Plaza, Chicago, IL 60654
Lifeway Wisconsin, Inc.	2101 Delafield Street, Waukesha, WI 53188

SCHEDULE 7.27

Real Property

Lifeway Foods, Inc.	6431 W. Oakton St, Morton Grove, IL 60053 Cook 6101 W. Gross Point Rd, Niles, IL 7625 N. Austin Ave, Skokie, IL	Owned	Lifeway Foods Inc.
Fresh Made, Inc.	810 Bleigh St. Philadelphia, PA 19111	Owned	Freshmade Inc.
Pride of Main Street Dairy	214 Main Street S, Sauk Centre, MN 56378	Owned	Pride of Main Street Dairy
Helios Nutrition	None		
Starfruit LLC	1745 W. Division St. Chicago, IL 60612	Leased	John Leydon - Ruby Room
Starfruit LLC	2142 North Halsted, Chicago, IL 60614	Leased	Michael Williamson
Starfruit LLC	108 N. State Chicago, IL 60602	Leased	CB Richard Ellis
Starfruit LLC	222 Merchandise Mart Plaza Chicago, IL 60654	Leased	Merchandise Mart.
Lifeway Wisconsin, Inc.	2101 Delafield Street Waukesha, WI 53188	Owned	Lifeway Wisconsin, Inc.

SCHEDULE 8.23

Excluded Bank Accounts

Pride of Main Street Dairy	Minnesota National Bank, 235 Main St, Sauk Centre, MN 56378	2186585	Business Checking
Starfruit LLC	Chase, Chicago IL		Business Checking
		827403254	(Master)
		863559795	Business Checking
			(Block 37)
		863559829	Business Checking
			(Division)
		863559787	Business Checking
			(Halsted)
		863559449	Business Checking
			(Merchandise Mart)
		964691307	Business Checking (Truck)

SCHEDULE 9.1

Debt

None other than the Amani-Helios Debt

SCHEDULE 9.2

Permitted Liens

None.

SCHEDULE 9.3

Investments

All the Morgan Stanley, Barclays and UBS accounts identified on Schedule 6.1.

EX-10.5 3 exh10-5_17568.htm EIGHTH MODIFICATION TO LOAN AND SECURITY AGREEMENT

EXHIBIT 10.5

THIS AMENDMENT WAS
PREPARED BY AND AFTER
RECORDING RETURN TO:

James M. Teper, Esq.
Patzik, Frank & Samotny Ltd.
150 S. Wacker Drive, Suite 1500
Chicago, Illinois 60606

**SECOND AMENDMENT TO
MORTGAGE, SECURITY AGREEMENT, ASSIGNMENT OF RENTS
AND LEASES AND FIXTURE FILING**

THIS SECOND AMENDMENT TO MORTGAGE, SECURITY AGREEMENT, ASSIGNMENT OF RENTS AND LEASES AND FIXTURE FILING dated as of the 4th day of September, 2013 (this "Amendment"), is executed by and between **LIFEWAY FOODS, INC.**, an Illinois corporation (the "Mortgagor"), and **THE PRIVATEBANK AND TRUST COMPANY**, its successors and assigns (the "Lender"), with reference to the following facts:

A. Lender is the legal owner and holder of a Term Note dated February 6, 2009, executed and delivered by Mortgagor and Borrowers and payable to the order of Lender in the original principal amount of \$7,600,000.

B. Lender is the legal owner and holder of a Revolving Note dated February 6, 2009, executed and delivered by Mortgagor and Borrowers, and payable to the order of Lender in the maximum principal amount of \$5,000,000.

C. Note 1 and Note 2 (as hereinafter defined) are secured by, among other things, a Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing, executed by Mortgagor in favor of Lender, and recorded in the Cook County Recorder of Deeds on February 17, 2009 as Document No. 0904833014, as amended by a First Amendment to Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing dated as of May 14, 2013, executed by Mortgagor in favor of Lender and recorded in the Cook County Recorder of Deeds on May 23, 2013, as Document No. 1314312001 (collectively, the "Existing Mortgage").

D. The Existing Mortgage encumbers certain real estate located in Cook County, Illinois, and described on Exhibit A attached hereto and made a part hereof (the "Premises").

E. Mortgagor has requested that Lender make an additional loan to Borrowers in the original principal amount of \$5,000,000.00.

F. Mortgagor and Lender agree to amend the Existing Mortgage as provided herein.

NOW, THEREFORE, in consideration of (i) the facts set forth hereinabove (which are hereby incorporated into and made a part of this Amendment), (ii) the covenants and agreements contained herein, and (iii) other good and valuable consideration, the receipt, adequacy and sufficiency of which are acknowledged, Mortgagor and Lender, intending to be legally bound, agree as follows:

1. **Definitions.** All capitalized terms which are not defined herein shall have the meanings ascribed in the Existing Mortgage.

2. **Amendment.** Effective as of the date hereof, the Existing Mortgage is hereby amended as follows:

2.1 Recital A contained in the Existing Mortgage is hereby amended in its entirety by substituting the following in its stead:

“Pursuant to the terms and conditions contained in that certain Loan and Security Agreement dated February 6, 2009, executed by and among the Mortgagor, Fresh Made, Inc., a Pennsylvania corporation, Helios Nutrition Limited, a Minnesota corporation, Pride of Main Street Dairy, LLC, a Minnesota limited liability company, Starfruit, LLC, an Illinois limited liability company, and Lifeway Wisconsin, Inc., an Illinois corporation (individually “LWI” and collectively, the “Borrowers”) and the Lender (as heretofore, presently and hereafter amended, the “Loan Agreement”), the Lender has agreed to loan to the Borrowers the principal amount of Seventeen Million Six Hundred Thousand and No/100 Dollars (\$17,600,000.00) (the “Loan”), and which amount includes a letter of credit facility. The Loan shall be evidenced by (i) that certain Term Note in the original principal amount of \$7,600,000.00, dated February 6, 2009 (as amended, restated or replaced from time to time, “Note 1”), executed by the Borrowers and made payable to the order of the Lender and due on May 31, 2018 (as may be extended from time to time), (ii) that certain Revolving Note in the original principal amount of \$5,000,000.00, dated February 6, 2009 (as amended, restated or replaced from time to time, “Note 2”), executed by the Borrowers and made payable to the order of the Lender and due on May 31, 2014 (as may be extended from time to time), and (iii) that certain Promissory Note in the original principal amount of \$5,000,000.00, dated of even date herewith (as amended, restated or replaced from time to time, “Note 3”), executed by the Borrowers and made payable to the order of Lender and due on May 31, 2019 (as may be extended from time to time) (Note 1, Note 2 and Note 3 are hereinafter collectively referred to as the “Note”), except as each due date may be accelerated pursuant to the terms hereof, of the Note, the Loan Agreement or of any other document or instrument now or hereafter given to evidence or secure the payment of the Note or delivered to induce the Lender to disburse the proceeds of the Loan (the Note and the Loan Agreement, together with such other documents, as amended, restated or replaced from time to time, being collectively referred to herein as the “Loan Documents”).”

3. **Amendment Supplementary.** From and after the date hereof, the Existing Mortgage shall be deemed to be amended and modified as herein provided, but, except as so amended and modified, the Existing Mortgage shall continue in full force and effect and the Existing Mortgage and this Amendment shall be read, taken and construed as one and the same instrument.

4. **Reaffirmation.** Mortgagor reaffirms all of its obligations, liabilities, duties, covenants, and agreements to and with Lender pursuant to the Existing Mortgage, as amended hereby, and the other Loan Documents and agrees that such obligations, liabilities, duties, covenants, and agreements shall continue in full force and effect and shall not be discharged, limited, impaired, or, except as provided in this Amendment, affected in any manner whatsoever.

5. **Counterparts.** This Amendment may be executed in any number of counterparts, all of which taken to be one and the same instrument, for the same effect as if all parties hereto had signed the same signature page.

* * *

IN WITNESS WHEREOF, Mortgagor and Lender have executed this Amendment to Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing as of the date first above written.

MORTGAGOR

LIFEWAY FOODS, INC.,
an Illinois corporation

By:

Name: /s/ Julie Smolyanky
Title: President

LENDER

THE PRIVATEBANK AND TRUST COMPANY

By:

Name: /s/ Douglas W. Buchler
Title: Managing Director

STATE OF ILLINOIS)
) SS:
COUNTY OF COOK)

Before me, a Notary Public in and for said County and State, personally appeared Julie Smolyansky, known to be the President of Lifeway Foods, Inc., an Illinois corporation, who is personally known to me to be the same person whose name is subscribed to the foregoing instrument as such she, and who acknowledged that she signed the foregoing instrument as her free and voluntary act and the free and voluntary act of said corporation, for the uses and purposes therein set forth.

Witness my hand and Notarial Seal, this 6th day of September, 2013.

/s/ S. McDonald
Notary Public

My Commission Expires:

11/12/2013

STATE OF ILLINOIS)
) SS:
COUNTY OF LAKE)

Before me, a Notary Public in and for said County and State, personally appeared Douglas W. Buchler, known to be the Managing Director of THE PRIVATEBANK AND TRUST COMPANY, a Managing Director, who is personally known to me to be the same person whose name is subscribed to the foregoing instrument as such Managing Director, and who acknowledged that he signed the foregoing instrument as his free and voluntary act and the free and voluntary act of said corporation, for the uses and purposes therein set forth.

Witness my hand and Notarial Seal, this 30th day of August, 2013.

/s/ Karen L. Petersen
Notary Public

My Commission Expires:

4/2/2017

EXHIBIT ALEGAL DESCRIPTION OF REAL ESTATE**PARCEL 1:**

LOT 2 (EXCEPT THE WEST 72.29 FEET, AS MEASURED ON THE SOUTH LINE THEREOF) IN TOUHY AVENUE INDUSTRIAL SUBDIVISION, BEING A SUBDIVISION OF THE SOUTHWEST FRACTIONAL 1/4 OF SECTION 29, TOWNSHIP 41 NORTH, RANGE 13, EAST OF THE THIRD PRINCIPAL MERIDIAN, AS SURVEYED BY GREMLEY AND BIEDERMANN SURVEYORS, DATED SEPTEMBER 19, 1965 AND BEING A REPLAT OF A PART OF ASSESSOR'S DIVISION IN SAID FRACTIONAL 1/4 OF SECTION 29, TOWNSHIP 41 NORTH, RANGE 13, EAST OF THE THIRD PRINCIPAL MERIDIAN, IN COOK COUNTY, ILLINOIS.

Property Address: 6101 Gross Point Road
Niles, Illinois 60714

Permanent Index No.: 10-29-307-012-0000

PARCEL 2:

LOT I IN ANDERSON'S AUSTIN-GROSS POINT INDUSTRIAL SUBDIVISION OF PART OF THE NORTHEAST 1/4 AND PART OF THE NORTHWEST 1/4 OF SECTION 29, TOWNSHIP 41 NORTH, RANGE 13, EAST OF THE THIRD PRINCIPAL MERIDIAN, IN COOK COUNTY, ILLINOIS.

Property Address: 7625 North Austin Avenue
Skokie, Illinois 60077

Permanent Index No.: 10-29-209-026-0000

PARCEL 3:

LOT 5, EXCEPT THE SOUTH 140 FEET THEREOF, MEASURED ALONG THE EAST AND WEST LINES OF SAID LOT 5, AND EXCEPT THE NORTH 10 FEET OF SAID LOT 5 TAKEN FOR WIDENING OAKTON STREET, IN ENJAY'S INDUSTRIAL SUBDIVISION, BEING A SUBDIVISION IN THE NORTH 1/2 OF THE NORTH EAST 1/4 OF SECTION 30, TOWNSHIP 41 NORTH, RANGE 13, EAST OF THE THIRD PRINCIPAL MERIDIAN, IN COOK COUNTY, ILLINOIS.

Property Address: 6431 West Oakton Street
Morton Grove, Illinois 60053

Permanent Index No.: 10-30-202-011-0000

A-1

EX-31.1 4 exh31-1_17568.htm 302 CERTIFICATION OF THE C.E.O.

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 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, 2013

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

EX-31.2 5 exh31-2_17568.htm 302 CERTIFICATION OF THE C.F.O.

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, 2013

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

EX-32.1 6 exh32-1_17568.htm 906 CERTIFICATION OF THE C.E.O.

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, 2013 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, 2013

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

EX-32.2 7 exh32-2_17568.htm 906 CERTIFICATION OF THE C.F.O.

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, 2013 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, 2013

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



Lifeway Foods Announces Results for the Third Quarter of 2013

Third Quarter 2012 Net Sales Increase 15% to \$23.8 Million

Morton Grove, IL — November 14, 2013—Lifeway Foods, Inc., (Nasdaq: LWAY), a leading supplier of cultured dairy products known as kefir and organic kefir, today announced results for the third quarter ended September 30, 2013.

“We are pleased to report another strong quarter, which demonstrates our steady progress in growing Lifeway into a leading health food brand,” said Julie Smolyansky, CEO of Lifeway Foods. “Our team has remained focused on creating delicious and nutritious kefir products for our customers and the demand for Lifeway Foods continues to increase. The investments we have made in our business have created strong momentum and we are on track to report record results this year. Looking ahead, we believe that we will continue to deliver consistent returns to our shareholders as we grow the distribution of our products in the United States and abroad.”

Third Quarter Results

Third quarter of 2013 gross sales increased 18% to \$26.6 million compared to \$22.6 million for the third quarter of 2012. This increase is primarily attributable to increased sales and awareness of the Company’s flagship line, Kefir, as well as ProBugs® Organic Kefir for kids and BioKefir™.

Total consolidated net sales increased 15% or \$3.2 million to \$23.8 million during the three-month period ended September 30, 2013 from \$20.6 million during the same three-month period in 2012.

Gross profit for the third quarter of 2013 was \$6.9 million, which was approximately the same in the third quarter of the prior year. The Company’s gross profit margin was 29% in the third quarter of 2013 compared to 33% in the third quarter of 2012. This was primarily attributable to a 35% increase in the cost of milk, the Company’s largest raw material.

Total operating expenses decreased 3% or \$0.1 million to \$4.7 million during the third quarter of 2013, from \$4.8 million during the same period in 2012. This decrease was primarily attributable to a decrease selling related expenses.

Total operating income increased \$0.1 million to \$2.2 million during the third quarter of 2013, from \$2.1 million during the same period in 2012.

During the 3 month period ended September 30, 2013, the company sold certain assets that were acquired in the Golden Guernsey Wisconsin production facility in July 2013 for net sale proceeds of \$537,500. In connection with the sale of those assets, the company recognized a gain of approximately \$209,000, which is included in other income.

The Company’s third quarter 2013 effective tax rate was 29% compared to 32% in the same period last year.

Total net income was \$1.7 million or \$0.10 per diluted share for the three-month period ended September 30, 2013 compared to \$1.4 million or \$0.09 per diluted share in the same period in 2013.

Nine Month Results

Total consolidated gross sales increased by \$13.2 million, or approximately 20%, to \$80.0 million during the nine-month period ended September 30, 2013 from \$66.9 million during the same nine-month period in 2012. This increase is primarily attributable to increased sales and awareness of the Company's flagship line, Kefir, as well as ProBugs® Organic Kefir for kids and BioKefir™.

Total consolidated net sales increased by \$10.7 million, or approximately 18%, to \$71.3 million during the nine-month period ended September 30, 2013 from \$60.6 million during the same nine-month period in 2012.

Gross profit for the first nine months of 2013 increased 11% to \$22.8 million, compared to \$20.6 million in the third quarter of the prior year. The Company's gross profit margin decreased to 32% in the first nine months versus 34% in the same period last year. Gross profit was negatively impacted primarily by the increased price of milk, the Company's largest raw material. The cost of milk was approximately 25% higher compared to the first nine months of 2012.

Operating expenses as a percentage of net sales were approximately 20% during the nine-month period ended September 30, 2013 compared to approximately 22% during the same period in 2012. General and administrative expenses increased by \$0.9 million (approximately 20%) to \$5.6 million during the nine-month period ended September 30, 2013, from \$4.6 during the same period in 2012.

Total net income was \$5.5 million or \$0.33 per share for the nine-month period ended September 30, 2013 compared to \$4.6 million or \$0.28 per share in the same period in 2012.

Balance Sheet/Cash Flow Highlights

The Company had \$1.2 million in cash and cash equivalents as of September 30, 2013 compared to \$2.4 million at September 30, 2012. Total stockholder's equity was \$43.4 million as of September 30, 2013, which is an increase of \$5.0 million when compared to September 30, 2012.

Net cash provided by operating activities decreased \$2.5 million to \$3.6 million for the first nine months of 2013.

Net cash used in investing activities was \$7.9 million during the nine-months ended September 30, 2013 compared to net cash used in operating activities of \$1.2 during the same period in 2012. This increase is primarily attributable to purchases of property and equipment of \$7.4 million.

Conference Call

The Company will host a conference call to discuss these results with additional comments and details on Thursday, November 14, 2013 at 4:30 p.m. ET. The call will be broadcast live over the Internet hosted at the Investor Relations section of Lifeway Foods' website at www.lifeway.net, and will be archived online through November 28, 2013. In addition, listeners may dial 877-407-3982 in North America, and international listeners may dial 201-493-6780. Participants from the Company will be Edward Smolyansky, Chief Financial Officer and Chief Operating Officer.


About Lifeway Foods

Lifeway Foods, Inc. (LWAY), recently named one of Fortune Small Business' Fastest Growing Companies for the sixth consecutive year, is America's leading supplier of the cultured dairy products known as kefir and organic kefir. Lifeway Kefir is a dairy beverage that contains 10 exclusive live and active probiotic cultures plus ProBoost™. In addition to its line of Kefir products, the company produces a variety of Frozen Kefir and probiotic cheese products. Lifeway also sells frozen kefir, kefir smoothies and kefir parfaits through its Starfruit™ retail stores. Find Lifeway Foods, Inc. on Facebook: www.facebook.com/lifewaykefir Follow Lifeway Foods on Twitter: http://twitter.com/lifeway_kefir YouTube: <http://www.youtube.com/user/lifewaykefir>.

Forward Looking Statements


Investors and readers are cautioned that certain statements contained in this news release, as well as some statements in periodic press releases and some oral statements of Lifeway officials during presentations about Lifeway, along with Lifeway's filings with the Securities and Exchange Commission, including Lifeway's registration statements, quarterly reports on Form 10-Q and annual report on Form 10-K, are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). Forward-looking statements include statements that are predictive in nature, which depend upon or refer to future events or conditions, which include words such as "expects," "anticipates," "intends," "plans," "could," "might," "believes," "seeks," "estimates" or similar expressions. In addition, any statements concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future actions, which may be provided by Lifeway's management, are also forward-looking statements within the meaning of the Act. Forward-looking statements are based on current expectations and projections about future events and are subject to various risks, uncertainties and assumptions including, but not limited to, competitive pressures and other important factors detailed in the Company's reports filed with the Securities and Exchange Commission. Investors are cautioned that actual results may differ materially from such forward-looking statements. These statements are not guarantees of future performance and Lifeway undertakes no specific obligation or intention to update these statements after the date of this release.

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LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Condition
September 30, 2013 and 2012 (Unaudited) and December 31, 2012

	(Unaudited)		December 31,
	September 30,		
	2013	2012	2012
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents	\$ 1,240,730	\$ 2,379,565	\$ 2,286,226
Investments	2,506,463	2,032,598	1,869,888
Certificates of deposits in financial institutions	115,373	450,000	450,000
Inventories	8,382,287	5,569,887	5,939,186
Accounts receivable, net of allowance for doubtful accounts and discounts	11,313,652	10,002,065	8,723,737
Prepaid expenses and other current assets	88,629	45,350	97,138
Other receivables	89,100	3,946	8,825
Deferred income taxes	394,277	315,887	234,687
Refundable income taxes	423,242	84,828	84,828
Total current assets	\$ 24,553,753	\$ 20,884,126	\$ 19,694,515
Property and equipment, net	21,637,492	14,754,312	14,986,776
Intangible assets			
Goodwill and other non-amortizable brand assets	14,068,091	14,068,091	14,068,091
Other intangible assets, net of accumulated amortization of \$4,376,640 and \$3,662,477 at September 30, 2013 and 2012 and \$3,842,756 at December 31, 2012, respectively	3,929,360	4,643,523	4,463,242
Total intangible assets	17,997,451	18,711,614	18,531,333
Other Assets			
Long-term accounts receivable net of current portion	280,000	162,522	294,000
Total assets	\$ 64,468,696	\$ 54,512,574	\$ 53,506,624
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
Current liabilities			
Current maturities of notes payable	\$ 878,088	\$ 580,781	\$ 542,981
Accounts payable	5,429,988	5,118,902	4,256,725
Accrued expenses	1,323,213	894,092	1,155,677
Accrued income taxes	1,292,762	1,341,652	254,311
Total current liabilities	8,924,051	7,935,427	6,209,694
Notes payable	9,214,853	5,096,675	4,955,945
Deferred income taxes	2,917,213	3,112,529	3,028,518
Total liabilities	21,056,117	16,144,631	14,194,157
Stockholders' equity			
Common stock, no par value; 40,000,000 shares authorized; 17,273,776 shares issued; 16,346,017 shares outstanding at September 30, 2013; 17,273,776 shares issued; 16,359,017 shares outstanding at September 30, 2012; 17,273,776 shares issued; 16,346,017 shares outstanding at December 31, 2012	6,509,267	6,509,267	6,509,267
Paid-in-capital	2,032,516	2,032,516	2,032,516
Treasury stock, at cost	(8,187,682)	(8,077,239)	(8,187,682)
Retained earnings	43,056,422	37,831,275	38,904,777

Accumulated other comprehensive income (loss), net of taxes	<u>2,056</u>	<u>72,124</u>	<u>53,591</u>
Total stockholders' equity	<u>43,412,579</u>	<u>38,367,943</u>	<u>39,312,469</u>
Total liabilities and stockholders' equity	<u>\$ 64,468,696</u>	<u>\$ 54,512,574</u>	<u>\$ 53,506,626</u>

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Income and Comprehensive Income
September 30, 2013 and 2012 (Unaudited)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2013	2012	2013	2012
Sales	\$ 26,601,341	\$ 22,617,132	\$ 80,030,021	\$ 66,876,986
Less: discounts and allowances	<u>(2,808,811)</u>	<u>(1,997,399)</u>	<u>(8,772,576)</u>	<u>(6,306,675)</u>
Net Sales	23,792,530	20,619,733	71,257,445	60,570,311
Cost of goods sold	16,513,357	13,342,566	47,217,179	38,771,897
Depreciation expense	<u>410,797</u>	<u>407,567</u>	<u>1,226,629</u>	<u>1,219,721</u>
Total cost of goods sold	<u>16,924,154</u>	<u>13,750,133</u>	<u>48,443,808</u>	<u>39,991,618</u>
Gross profit	6,868,376	6,869,600	22,813,637	20,578,693
Selling expenses	2,815,126	2,974,294	8,291,960	8,300,810
General and administrative	1,671,080	1,620,967	5,567,649	4,626,853
Amortization expense	<u>178,201</u>	<u>197,129</u>	<u>533,884</u>	<u>574,538</u>
Total Operating Expenses	4,664,407	4,792,390	14,393,493	13,502,201
Income from operations	2,203,969	2,077,210	8,420,144	7,076,492
Other income (expense):				
Interest and dividend income	36,535	16,270	82,166	52,321
Rental income	2,231	4,270	8,889	10,284
Interest expense	(59,887)	(41,897)	(133,610)	(136,000)
Gain (loss) on sale of investments, net, reclassified from OCI	161	4,024	121,441	26,415
Other income	<u>209,175</u>	<u>0</u>	<u>219,404</u>	<u>0</u>
Total other income (expense)	<u>188,215</u>	<u>(17,333)</u>	<u>298,290</u>	<u>(46,980)</u>
Income before provision for income taxes	2,392,184	2,059,877	8,718,434	7,029,512
Provision for income taxes	<u>702,257</u>	<u>657,697</u>	<u>3,258,928</u>	<u>2,483,216</u>
Net income	\$ 1,689,927	\$ 1,402,180	\$ 5,459,506	\$ 4,546,296
Basic and diluted earnings per common share	0.10	0.09	0.33	0.28
Weighted average number of shares outstanding	16,346,017	16,366,974	16,346,017	16,380,793

COMPREHENSIVE

INCOME

Net income	\$ 1,689,927	\$ 1,402,180	5,459,506	\$ 4,546,296
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investments (net of tax)	29,356	62,266	17,079	95,996
Less reclassification adjustment for (gains) losses included in net income (net of taxes)	<u>(91)</u>	<u>(2,274)</u>	<u>(68,614)</u>	<u>(14,924)</u>
Comprehensive income	<u>\$ 1,719,192</u>	<u>\$ 1,462,172</u>	<u>\$ 5,407,971</u>	<u>\$ 4,627,368</u>

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2013 and 2012 (Unaudited)

	(Unaudited)	
	September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 5,459,506	\$ 4,546,296
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	1,760,513	1,794,259
Loss (gain) on sale of investments, net	(121,441)	(26,415)
Deferred income taxes	(231,218)	(458,424)
Bad Debt Expense	26,819	332,301
Loss (gain) on sale of equipment	(209,175)	
(Increase) decrease in operating assets:		
Accounts receivable	(2,612,905)	(2,106,020)
Other receivables	(80,275)	220,258
Inventories	(2,443,101)	(615,412)
Refundable income taxes	(338,414)	(43,512)
Prepaid expenses and other current assets	33,509	34,280
Increase (decrease) in operating liabilities:		
Accounts payable	1,173,263	732,663
Accrued expenses	167,536	340,367
Income taxes payable	1,038,451	1,341,652
Net cash provided by operating activities	3,623,068	6,092,293
Cash flows from investing activities:		
Purchases of investments	(2,877,968)	(1,092,976)
Proceeds from sale of investments	2,281,792	802,026
Redemption of certificates of deposits	334,627	(150,000)
Purchases of property and equipment	(8,205,669)	(775,210)
Proceeds from sale of equipment	537,500	0
Net cash used in investing activities	(7,929,718)	(1,216,160)
Cash flows from financing activities:		
Checks written in excess of bank balances	—	(592,040)
Purchases of treasury stock	—	(470,265)
Dividends paid	(1,307,861)	(1,146,317)
Net proceeds from debt issuance	4,975,000	0
Repayment of notes payable	(405,985)	(1,403,096)
Net cash used in financing activities	3,261,154	(3,611,718)
Net (decrease) increase in cash and cash equivalents	(1,045,496)	1,264,415
Cash and cash equivalents at the beginning of the period	2,286,226	1,115,150
Cash and cash equivalents at the end of the period	\$ 1,240,730	\$ 2,379,565