LIFEWAY FOODS INC
Form 10-Q
November 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2012

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

For the transition period from __________ to __________

Commission File Number: 000-17363

LIFEWAY FOODS, INC.
(Exact Name of Registrant as Specified in its Charter)

Illinois	36-3442829
(State or Other Jurisdiction of Incorporation or Organization)	(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 x No o

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 x No o

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 o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of November 8, 2012, the issuer had 16,359,017 shares of common stock, no par value, outstanding.

LIFEWAY FOODS, INC.
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Condition
September 30, 2012 and 2011 (Unaudited) and December 31, 2011

	(Unaudited) September 30, 2012	2011	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	$2,379,565	$860,683	$1,115,150
Investments	2,032,598	1,814,344	1,695,044
Certificates of deposits in financial institutions	450,000	300,000	300,000
Inventories	5,569,887	5,779,926	4,954,475
Accounts receivable, net of allowance for doubtful accounts and discounts	10,002,065	9,362,672	7,950,276
Prepaid expenses and other current assets	45,350	86,402	79,630
Other receivables	3,946	14,833	224,204
Deferred income taxes	315,887	458,001	338,690
Refundable income taxes	84,828	0	41,316
Total current assets	20,884,126	18,676,861	16,698,785
Property and equipment, net	14,754,312	15,380,717	15,198,822
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 $3,662,477 and $2,891,981 at September 30, 2012 and 2011 and 3,087,940 at December 31, 2011, respectively	4,643,523	5,414,019	5,218,060
Total intangible assets	18,711,614	19,482,110	19,286,151
Other Assets			
Long-term accounts receivable net of current portion	162,522	0	289,550
Total assets	$54,512,574	$53,539,688	$51,473,308
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Checks written in excess of bank balances	$---	$870,987	$592,040
Current maturities of notes payable	580,781	1,923,436	1,540,716
Accounts payable	5,118,902	4,529,757	4,386,239

Accrued expenses	894,092	857,862	553,725
Accrued income taxes	1,341,652	351,107	0
Total current liabilities	7,935,427	8,533,149	7,072,720
Notes payable	5,096,675	5,882,691	5,539,836
Deferred income taxes	3,112,529	3,313,092	3,503,595
Total liabilities	16,144,631	17,728,932	16,116,151
Stockholders' equity			
Common stock, no par value; 20,000,000 shares authorized; 17,273,776 shares issued; 16,359,017 shares outstanding at September 30, 2012; 17,273,776 shares issued; 16,425,809 shares outstanding at September 30, 2011; 17,273,776 shares issued; 16,409,317 shares outstanding at December 31, 2011	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	(8,077,239)	(7,447,975)	(7,606,974)
Retained earnings	37,831,275	34,797,229	34,431,296
Accumulated other comprehensive income (loss), net of taxes	72,124	(80,281)	(8,948)
Total stockholders' equity	38,367,943	35,810,756	35,357,157
Total liabilities and stockholders' equity	$54,512,574	$53,539,688	$51,473,308

See accompanying notes to financial statements.

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income

For the Three and Nine Months Ended September 30, 2012 and 2011 (unaudited)

	(Unaudited) Three Months Ended September 30,				(Unaudited) Nine Months Ended September 30,		
	2012		2011		2012		201
Sales	$22,617,132		$19,423,533		$66,876,986		$58,383,802
Less: discounts and allowances	(1,997,399)		(1,721,929)		(6,306,675)		(5,180,377)
Net sales	20,619,733	20,619,733	17,701,604	17,701,604	60,570,311	60,570,311	53,203,425
Cost of goods sold		12,738,310		10,958,115		37,079,491	
Depreciation expense		407,567		396,732		1,219,721	
Total cost of goods sold		13,145,877		11,354,847		38,299,212	
Gross profit		7,473,856		6,346,757		22,271,099	
Selling expenses		2,974,294		2,661,983		8,300,810	
General and administrative		2,225,224		1,921,111		6,319,259	
Amortization expense		197,129		195,958		574,538	
Total operating expenses		5,396,647		4,779,052		15,194,607	
Income from operations		2,077,209		1,567,705		7,076,492	
Other income (expense):							
Interest and dividend income		16,270		14,465		52,321	
Rental income		4,270		4,546		10,284	
Interest expense		(41,897)		(61,074)		(136,000)	
Gain (loss) on sale of investments, net		4,024		(33,477)		26,415	
Loss on disposition of assets		0		(20,135)		0	
Total other income (expense)		(17,333)		(95,675)		(46,980)	
Income before provision for income taxes		2,059,876		1,472,030		7,029,512	
Provision for income taxes		657,697		441,989		2,483,216	
Net income		$1,402,179		$1,030,041		$4,546,296	$
Basic and diluted earnings per common share		.09		0.06		0.28	

Weighted average number of shares outstanding	16,366,974	16,428,005	16,380,793	
COMPREHENSIVE INCOME				
Net income	$1,402,179	$1,030,041	$4,546,296	$
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investments (net of tax)	62,266	(83,118)	95,996	
Less reclassification adjustment for (gains) losses included in net income (net of taxes)	(2,274)	18,914	(14,924)	
Comprehensive income	$1,462,171	$965,837	$4,627,368	$

See accompanying notes to financial statements.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Nine Months Ended September 30, 2012 and 2011 (Unaudited)
and for the Year Ended December 31, 2011

	Common Stock, No Par Value 20,000,000 Shares Authorized # of Shares Issued	# of Shares Outstanding	# of Shares of Treasury Stock	Common Stock	Paid In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	
Balances at December 31, 2010	17,273,776	16,536,657	737,119	$6,509,267	$2,032,516	$(6,425,546)	$31,575,875	$(43,094)	$33
Redemption of stock	0	(127,340)	127,340	0	0	(1,181,428)	0	0	(1
Issuance of treasury stock for compensation	0			0			0	0	0
Other comprehensive income (loss): Unrealized gains on securities, net of taxes	0	0	0	0	0	0	0	34,146	34
Net income for the year ended December 31, 2011	0	0	0	0	0	0	2,855,421	0	2,
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
Balances at January 1, 2011	17,273,776	16,536,657	737,119	$6,509,267	$2,032,516	$(6,425,546)	$31,575,875	$(43,094)	$33
Redemption of stock	0	(110,848)	110,848	0	0	(1,022,429)	0	0	(1
Other comprehensive income (loss):									
	0	0	0	0	0	0	0	(37,187)	(3

Unrealized gains on securities, net of taxes									
Net income for the nine months ended September 30, 2011	0	0	0	0	0	0	3,221,354	0	3,
Balances at September 30, 2011	17,273,776	16,425,809	847,967	$6,509,267	$2,032,516	$(7,447,975)	$34,797,229	$(80,281)	$35
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)	$35
Redemption of stock	0	(50,300)	50,300	0	0	(470,265)	0	0	(4
Other comprehensive income (loss):									
Unrealized gains on securities, net of taxes	0	0	0	0	0	0	0	81,072	81
Net income for the nine months ended September 30, 2012	0	0	0	0	0	0	4,546,296	0	4,
Dividends ($.07) per share	0	0	0	0	0	0	(1,146,317)	0	(1
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

See accompanying notes to financial statements.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2012 and 2011 (Unaudited)

	(Unaudited) September 30 2012		2011	
Cash flows from operating activities:				
Net income	$4,546,296		$3,221,354	
Adjustments to reconcile net income to net cash flows from operating activities, net of acquisition:				
Depreciation and amortization	1,794,259		1,751,813	
Loss (gain) on sale of investments, net	(26,415	)	35,533	
Loss on disposition of equipment	0		20,135	
Deferred income taxes	(458,424	)	(186,677	)
Bad Debt Expense	332,301		80,000	
(Increase) decrease in operating assets:				
Accounts receivable	(2,106,020	)	(2,649,396	)
Other receivables	220,258		89,847	
Inventories	(615,412	)	(1,794,552	)
Refundable income taxes	(43,512	)	906,748	
Prepaid expenses and other current assets	34,280		71,913	
Increase (decrease) in operating liabilities:				
Accounts payable	732,663		346,276	
Accrued expenses	340,367		348,403	
Income taxes payable	1,341,652		351,107	
Net cash provided by operating activities	6,092,293		2,592,504	
Cash flows from investing activities:				
Purchases of investments	(1,092,976	)	(1,806,564	)
Proceeds from sale of investments	802,026		990,397	
Investments in certificates of deposits	(150,000	)	(50,000	)
Purchases of property and equipment	(775,210	)	(1,241,388	)
Net cash (used in) provided by investing activities	(1,216,160	)	(2,107,555	)
Cash flows from financing activities:				
Proceeds of note payable	0		1,000,000	
Checks written in excess of bank balances	(592,040	)	(470,223	)
Purchases of treasury stock	(470,265	)	(1,022,429	)
Dividends paid	(1,146,317	)	0	
Repayment of notes payable	(1,403,096	)	(2,361,553	)
Net cash used in financing activities	$(3,611,718	)	(2,854,205	)
Net (decrease) increase in cash and cash equivalents	1,264,415		(2,369,256	)
Cash and cash equivalents at the beginning of the period	1,115,150		3,229,939	
Cash and cash equivalents at the end of the period	$2,379,565		$860,683	

See accompanying notes to financial statements.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Nine Months Ended September 30, 2012 and 2011
and for the Year Ended December 31, 2011

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 and Ontario, Canada by distributors. The Company also distributes some of its products to Eastern Europe.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation
The accompanying unaudited 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.

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. 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 31 percent and 29 percent of gross sales for the nine months ended September, 2012 and 2011, respectively. These customers accounted for approximately 30 percent, 27 percent and 20 percent of accounts receivable as of September 30, 2012, September 30, 2011 and December 31, 2011, respectively.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Nine Months Ended September 30, 2012 and 2011
and for the Year Ended December 31, 2011

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

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

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

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Nine Months Ended September 30, 2012 and 2011
and for the Year Ended December 31, 2011

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

Intangible assets are being amortized over the following useful lives:

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

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

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

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
For the Nine Months Ended September 30, 2012 and 2011
and for the Year Ended December 31, 2011

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, 2012 and 2011 total advertising expenses were $1,977,611 and $2,702,782 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, 2012 and 2011, diluted and basic earnings per share were the same, as the effect of dilutive securities options outstanding was not significant.

Reclassification
Certain amounts in the 2011 quarter and 9 month financial statements have been reclassified to conform with the current quarter presentation which have no effect on net income or stockholder's equity.

Note 3 – INTANGIBLE ASSETS

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

	September 30, 2012		September 30, 2011		December 31, 2011	
	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	1,914,395	4,504,200	1,419,834	4,504,200	1,546,671
Lease acquisition	87,200	87,200	87,200	85,368	87,200	87,200
Customer relationship	985,000	506,180	985,000	424,116	985,000	444,618
Trade names	2,248,000	841,002	2,248,000	692,763	2,248,000	728,601
Formula	438,000	270,100	438,000	226,300	438,000	237,250
	$ 8,306,000	$ 3,662,477	$ 8,306,000	$ 2,891,981	$ 8,306,000	$ 3,087,940

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

2013	$ 714,000
2014	711,000
2015	711,000

2016	704,000
2017	668,000
Thereafter	1,136,000
	$ 4,644,000

Amortization expense during the nine months ended September 30, 2012 and 2011 was $574,538 and $587,874, respectively.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Nine Months Ended September 30, 2012 and 2011
and for the Year Ended December 31, 2011

Note 4 – INVESTMENTS

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

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

September 30, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equities	$681,162	$6,386	$(88,910)	$598,638
Mutual Funds	3,588	40	(794)	2,834
Preferred Securities	114,452	0	(18,154)	96,298
Corporate Bonds	556,141	0	(40,011)	516,130
Government Agency Obligations	601,092	0	(648)	600,444
Total	$1,956,435	$6,426	$(148,517)	$1,814,344

December 31, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equities	$682,569	$55,244	$(23,211)	$714,602
Mutual Funds	64,563	3,275	(713)	67,125
Preferred Securities	64,452	0	(17,702)	46,750
Corporate Bonds	899,298	1,019	(33,750)	866,567
Total	$1,710,882	$59,538	$(75,376)	$1,695,044

Proceeds from the sale of investments were $802,026 and $990,397 for the nine months ended September 30, 2012 and 2011, respectively.

Gross gains of $43,367 and $27,291 and gross losses of $16,952 and $62,824 were realized on these sales during the nine months ended September 30, 2012 and 2011 respectively.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Nine Months Ended September 30, 2012 and 2011
and for the Year Ended December 31, 2011

Note 4 – INVESTMENTS - Continued

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2012 and 2011 December 31, 2011:

September 30, 2012	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses	Total Fair Value	Total Unrealized Losses
Equities	$19,437	$(10,998)	$22,669	$(973)	$42,106	$(11,971)
Corporate Bonds	81,472	(490)	149,626	(2,501)	231,098	(2,991)
	$100,909	$(11,488)	$172,295	$(3,474)	$273,204	$(14,962)

September 30, 2011	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses	Total Fair Value	Total Unrealized Losses
Equities	$386,005	$(52,770)	$33,294	$(36,140)	$419,299	$(88,910)
Mutual Funds	238	(41)	2,432	(753)	2,670	(794)
Preferred Securities	0	0	96,298	(18,154)	96,298	(18,154)
Corporate Bonds	380,326	(26,810)	135,805	(13,201)	516,131	(40,011)
Government Agency Obligations	600,444	(648)	0	0	600,444	(648)
	$1,367,013	$(80,269)	$267,829	$(68,248)	$1,634,842	$(148,517)

December 31, 2011	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses	Total Fair Value	Total Unrealized Losses
Equities	$176,966	$(23,211)	$0	$0	$176,966	$(23,211)
Mutual Funds	0	0	10,585	(713)	10,585	(713)
Preferred Securities	0	0	46,750	(17,702)	46,750	(17,702)
Corporate Bonds	626,292	(24,000)	90,250	(9,750)	716,542	(33,750)
	$803,258	$(47,211)	$147,585	$(28,165)	$950,843	$(75,376)

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, 2012, there were two equity securities and four 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, 2012.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Nine Months Ended September 30, 2012 and 2011
and for the Year Ended December 31, 2011

Note 5 – INVENTORIES

Inventories consist of the following:

	September 30,		December 31,
	2012	2011	2011
Finished goods	$2,162,292	$1,325,523	$1,976,050
Production supplies	2,188,111	2,163,203	2,042,611
Raw materials	1,219,484	2,291,200	935,814
Total inventories	$5,569,887	$5,779,926	$4,954,475

Note 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	September 30,		December 31
	2012	2011	2011
Land	$1,178,160	$1,178,160	$1,178,160
Buildings and improvements	11,713,436	11,555,313	11,633,077
Machinery and equipment	15,099,413	14,374,318	14,697,024
Vehicles	1,379,591	1,289,307	1,334,628
Office equipment	413,113	377,309	383,099
Construction in process	234,895	261,865	17,410
	30,018,608	29,036,272	29,243,398
Less accumulated depreciation	15,264,296	13,655,555	14,044,576
Total property and equipment	$14,754,312	$15,380,717	$15,198,822

Depreciation expense during the nine months ended September 30, 2012 and 2011 was $1,219,721 and $1,163,939, respectively.

Note 7 – ACCRUED EXPENSES

Accrued expenses consist of the following:

	September 30,		December 31,
	2012	2011	2011
Accrued payroll and payroll taxes	$493,872	$460,676	$209,395
Accrued property tax	226,930	374,903	323,885
Other	173,290	22,283	20,445
	$894,092	$857,862	$553,725

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Nine Months Ended September 30, 2012 and 2011
and for the Year Ended December 31, 2011

Note 8 – NOTES PAYABLE

Notes payable consist of the following:

	September 30, 2012	September 30, 2011	December 31 2011
Note payable to Private Bank in monthly installments of $42,222, plus variable interest rate, currently at 2.7963%, with a balloon payment of $5,066,667 due February 6, 2014. Collateralized by substantially all assets of the Company.	$ 5,534,445	$ 6,248,889	$ 5,914,445
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 $2.0 million, maturing on May 31, 2012. Collateralized by substantially all assets of the Company.	0	0	1,000,000
Line of credit with Morgan Stanley for borrowings up to $2.8 million at variable interest rate, currently at 3.00% due on demand. Collateralized by investments, cash and CD's.	0	1,384,468	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.	55,382	72,753	68,509
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.	87,629	100,017	97,598
Total notes payable	5,677,456	7,806,127	7,080,552
Less current maturities	580,781	1,923,436	1,540,716
Total long-term portion	$ 5,096,675	$ 5,882,691	$ 5,539,836

In accordance with the Private Bank agreements referenced above, the Company is subject to minimum fixed charged ratio and tangible net worth thresholds. At September 30, 2012, the Company was in compliance with these covenants.

Maturities of notes payables are as follows:

For the Period Ended September 30,	
2013	$583,154
2014	5,022,083
2015	35,368
2016	19,324
2017	17,527
Total	$5,677,456

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Nine Months Ended September 30, 2012 and 2011
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Note 9 – COMMITMENTS AND CONTINGENCIES

The Company leases four stores for its Starfruit subsidiary. Total expense for these leases was approximately $191,915, $182,491 and $240,723 for nine months ended September 30, 2012 and 2011, and for the year ended December 31, 2011, 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, 2012 are approximately as follows:

	2013	$	152,811
	2014		43,818
	2015		45,130
	2016		46,484
	2017		47,878
	Thereafter		61,733
Total		$	397,854

Note 10 – PROVISION FOR INCOME TAXES

The provision for income taxes consists of the following:

	For the Nine Months Ended September 30,	
	2012	2011
Current:		
Federal	$2,318,292	$1,422,579
State and local	623,348	879,463
Total current	2,941,640	2,302,042
Deferred	(458,424)	(186,677)
Provision for income taxes	$2,483,216	$2,115,365

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,			
	2012		2011	
	Amount	Percentage	Amount	Percentage
Federal income tax expense computed at the statutory rate	$ 2,390,034	34.0%	$ 1,814,484	34.0%

State and local tax expense, net		667,804	9.5%		506,988	9.5%
U.S. domestic manufacturers' discount & other permanent differences		(368,403)	(5.2%)		(146,938)	(2.8%)
Change in tax estimate		(206,219)	(2.9%)		(59,169)	(1.1%)
Provision for income taxes	$	2,483,216	35.4%	$	2,115,365	39.6%

LIFEWAY FOODS, INC. AND SUBSIDIARIES
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Note 10 – PROVISION FOR INCOME TAXES - Continued

Amounts for deferred tax assets and liabilities are as follows:

	September 30, 2012	September 30, 2011	December 31, 2011
Non-current deferred tax assets (liabilities) arising from:			
Temporary differences -			
Accumulated depreciation and amortization from purchase accounting adjustments	$(3,279,737)	$(3,584,660)	$(3,671,285)
Capital loss carry-forwards	167,208	271,568	167,690
Total non-current net deferred tax liabilities	(3,112,529)	(3,313,092)	(3,503,595)
Current deferred tax assets arising from:			
Unrealized losses (gain) on investments	(67,596)	61,810	6,890
Impairment of investments	0	0	15,673
Inventory	248,633	257,963	220,408
Allowance for doubtful accounts and discounts	134,850	138,228	4,350
Capital loss carry-back	0	0	91,369
Total current deferred tax assets	315,887	458,001	338,690
Net deferred tax liability	$(2,796,642)	$(2,855,091)	$(3,164,905)

Note 11 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and income taxes are as follows:

	For the Nine Months Ended September 30, 2012	2011
Interest	$ 136,540	$ 195,448
Income taxes	$ 1,643,619	$ 1,169,334

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, 2011 and at September 30, 2012 and 2011, there were no stock options outstanding or exercisable. There were approximately 940,000 shares available for issuance under the Plan at September 30, 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:

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Nine Months Ended September 30, 2012 and 2011
and for the Year Ended December 31, 2011

Note 13 – FAIR VALUE MEASUREMENTS - Continued

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, 2012 and 2011.

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
For the Nine Months Ended September 30, 2012 and 2011
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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, 2012 and 2011. 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, 2012			
	Level 1	Level 2	Level 3	Total
Cash	$ 2,379,565	$ 0	$ 0	$ 2,379,565
Money-market	59,282	0	0	59,282
Certificate of Deposits	0	438,062	0	438,062
Stocks	815,003	0	0	815,003
Corporate Bonds	0	1,217,596	0	1,217,596
Notes payable	0	5,677,456	0	5,677,456

	Assets and Liabilities at Fair Value as of September 30, 2011			
	Level 1	Level 2	Level 3	Total
Cash	$ 860,683	$ 0	$ 0	$ 860,683
Money Market	55,610	0	0	55,610
Mutual Funds:				
Equity Income	2,834	0	0	2,834
Certificate of Deposits	0	279,538	0	279,538
Stocks	598,638	0	0	598,638
Preferred Stock	96,298	0	0	96,298
Corporate Bonds	0	516,131	0	516,131
Government Securities	0	600,444	0	600,444
Notes payable	0	7,806,127	0	7,806,127

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 – RECENT ACCOUNTING PRONOUNCEMENTS

In September 2011 the FASB issued ASC Topic 350, Intangibles – Goodwill and Other. FASB ASC Topic 250 amends the existing standards related to annual and interim goodwill impairment tests by allowing companies to consider qualitative factors to determine whether it is more likely or not that the fair value of a reporting unit is less than its carrying amount before performing the two step impairment review process. It also amends the examples of events or circumstances that would be considered in a goodwill impairment evaluation. The amendment is effective for interim periods and fiscal years beginning after December 15, 2011; however, early adoption is permitted. The adoption of this new accounting guidance is not expected to have a material effect on the Company's financial statements or results of operations.

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
For the Nine Months Ended September 30, 2012 and 2011
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Note 14 – RECENT ACCOUNTING PRONOUNCEMENTS - Continued

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. The adoption of ASU 2011-04 did not have any impact on the Company’s financial position results of operations or liquidity.

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

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, 2011.

This report contains forward-looking statements within the meaning of the federal securities laws. These include statements about our expectations, beliefs, intentions or strategies for the future, which are indicated by words or phrases such as "believes," "anticipates," "expects," "intends," "plans," "will," "estimates," and similar words. Forward-lookin statements represent, as of the date of this report, our judgment relating to, among other things, future results of operations, growth plans, sales, capital requirements and general industry and business conditions applicable to us. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, assumptions and other factors, some of which are beyond the Company's control that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

Results of Operations

Comparison of Quarter Ended September 30, 2012 to Quarter Ended September 30, 2011

Total consolidated gross sales increased by $3,193,599 (approximately 16%) to $22,617,132 during the three-month period ended September 30, 2012 from $19,423,533 during the same three-month period in 2011. 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™. In addition, Lifeway's Frozen Kefir line, which was launched in April 2011, contributed approximately $700,000 to sales during the third quarter of 2012.

Total consolidated net sales increased by $2,918,129 (approximately 17%) to $20,619,733 during the three-month period ended September 30, 2012 from $17,701,604 during the same three-month period in 2011. Net sales are recorded as gross sales less promotional activities such as slotting fees paid, couponing, spoilage and promotional allowances as well as early payment terms given to customers.

Gross profit for the third quarter of 2012 increased 18% to $7,473,856, compared to $6,346,757 million in the third quarter of the prior year. The Company's gross profit margin was 33% in the third quarter, which was approximately the same in the third quarter of 2011. This was primarily attributable to a 20% decrease in the cost of conventional milk, the Company's largest raw material, partially offset by a 10% increase in the cost of organic milk.

Cost of goods sold as a percentage of net sales, excluding depreciation expense, were approximately 62% during the third quarter of 2012, which was approximately the same during the same period in 2011. This was primarily attributable to a 20% decrease in the cost of conventional milk, the Company's largest raw material, partially offset by a 10% increase in the cost of organic milk as compared to the same period last year.

Total operating expenses increased $617,595 (approximately 13%) to $5,396,647 during the third quarter of 2012, from $4,779,052 during the same period in 2011. This increase was primarily attributable to increased general and administrative expenses.

Total operating income increased by $509,504 (approximately 33%) to $2,077,209 during the third quarter of 2012, from $1,567,705 during the same period in 2011. This increase in operating income is related to the increase in gross profits.

Income tax expense was $657,697, or a 32% effective tax rate for the third quarter of 2012 compared to an income tax expense of $441,989, or a 30% effective tax rate during the same period in 2011.

Total net income was $1,402,179 or $0.09 per diluted share for the three-month period ended September 30, 2012 compared to $1,030,041 or $0.06 per diluted share in the same period in 2011.

Comparison of Nine-Months Ended September 30, 2012 to Nine-Months Ended September 30, 2011

Total consolidated gross sales increased by $8,493,184 (approximately 15%) to $66,876,986 during the nine-month period ended September 30, 2012 from $58,383,802 during the same nine-month period in 2011. 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™. In addition, Lifeway’s Frozen Kefir line, which was launched in April 2011, contributed approximately $1,900,000 to sales during the first nine months of 2012.

Total consolidated net sales increased by $7,366,886 (approximately 13.8%) to $60,570,311 during the nine-month period ended September 30, 2012 from $53,203,425 during the same three-month period in 2011. Net sales are recorded as gross sales less promotional activities such as slotting fees paid, couponing, spoilage and promotional allowances as well as early payment terms given to customers.

Gross profit for the nine-month period ended September 30, 2012 increased 16% to $22,271,099, compared to $19,155,726 million in the first nine months of the prior year. The Company’s gross profit margin was approximately 36% in the nine-months ended September 30, 2012, which was approximately the same in the same period of 2011. This was primarily attributable to a 20% decrease in the cost of conventional milk, the Company’s largest raw material, partially offset by a 10% increase in the cost of organic milk.

Cost of goods sold as a percentage of net sales, excluding depreciation expense, were approximately 62% during the first nine months of 2012, which was approximately 63% during the same period in 2011. This was primarily attributable to a 20% decrease in the cost of conventional milk, the Company’s largest raw material, partially offset by a 10% increase in the cost of organic milk as compared to the same period last year.

Total operating expenses increased $1,572,422 (approximately 12%) to $15,194,607 during the nine-months ended September 30, 2012, from $13,622,185 during the same period in 2011. This increase was primarily attributable to increased general and administrative expenses.

Total operating income increased by $1,542,951 (approximately 28%) to $7,076,492 during the nine-months ended September 30, 2012, from $5,533,541 during the same period in 2011. This increase in operating income is related to the increase in gross profits.

Income tax expense was $2,483,216, or a 35% effective tax rate for the nine-months ended September 30, 2012 compared to an income tax expense of $2,115,365, or a 40% effective tax rate during the same period in 2011.

Total net income was $4,546,296 or $0.28 per diluted share for the nine-month period ended September 30, 2012 compared to $3,221,354 or $0.20 per diluted share in the same period in 2011.

Liquidity and Capital Resources

Sources and Uses of Cash

Net cash provided by operating activities was $6,092,293 during the nine-months ended September 30, 2012 compared to $2,592,504 during the same period in 2011. This increase is primarily attributable to the increase in net income of $1,324,942. The increase reflects the Company's improvement in operating efficiencies.

Net cash used in investing activities was $1,216,160 during the nine-months ended September 30, 2012 compared to net cash used in operating activities of $2,107,555 during the same period in 2011. This decrease is primarily attributable to the decrease in purchases of investments of $713,588.

The Company had a net increase in cash and cash equivalents of $1,518,882 during the nine month period ended September 30, 2012 compared to the same period in 2011. The Company had cash and cash equivalents of $2,379,565 as of September 30, 2012 compared to cash and cash equivalents of $860,683 as of September 30, 2011.

Assets and Liabilities

Total assets were $54,512,574 as of September 30, 2012, which is an increase of $972,886 when compared to September 30, 2011. This is primarily due to an increase in cash and cash equivalents of $1,518,882 as of September 30, 2012 when compared to September 30, 2011.

Total current liabilities were $7,935,427 as of September 30, 2012, which is a decrease of $597,722 when compared to September 30, 2011. This is primarily due to a $1,342,655 decrease in current maturities of notes payable.

Notes payable decreased by $786,016 as of September 30, 2012, when compared to September 30, 2011. The balance of the notes payable as of September 30, 2012 was $5,096,675.

Total stockholder's equity was $38,367,943 as of September 30, 2012, which is an increase of $2,557,187 when compared to September 30, 2011. This is primarily due to an increase in retained earnings of $3,034,046 when compared to September 30, 2011.

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

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 are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

No changes in our internal control over financial reporting, as that term is defined in Exchange Act Rule 13(a)-15 required by the Exchange Act, occurred during the fiscal quarter ended September 30, 2012, has materially affected, or is 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.

PURCHASES OF THE COMPANY'S SECURITIES

Period	(a) Total Numbers of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 to July 31, 2012	1,000	$10.57	1,000	171,400
August 1 to August 31, 2012	8,700	$9.84	8,700	162,700
September 1 to September 30, 2012	3,500	$9.60	3,500	159,200
Total	13,200	$10.00	13,200	159,200

*On May 7, 2010, the Company established a share repurchase program for up to 200,000 shares with a plan expiration date of one year from the date of the first purchase. On January 20, 2011, the Company approved a share repurchase program for up to 250,000 shares with a plan expiration date of one year from the date of the first purchase. Lifeway repurchased 127,348 shares of the Company's securities in 2011 pursuant to these programs at a total cost of $1,181,428. As of the date of this filing these plans were both expired. On February 6, 2012, the Company approved a new share repurchase program for up to 200,000 shares with a plan expiration date of one year from the date of the first purchase.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURE.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit Number	Description of Document
31.1	Officer's Certificate Pursuant to 15 U.S.C. 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Officer's Certificate Pursuant to 15 U.S.C. 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press Release dated November 14, 2012.
101	Interactive Data Files.

SIGNATURES

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

LIFEWAY FOODS, INC.
(Registrant)

Date: November 14, 2012	By:	/s/ Julie Smolyansky Julie Smolyansky Chief Executive Officer, President and Director
Date: November 14, 2012	By:	/s/ Edward P. Smolyansky Edward P. Smolyansky Chief Financial and Accounting Officer and Treasurer

EXHIBIT INDEX

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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, 2012.
101	Interactive Data Files.