

LIFEWAY FOODS INC
Form 10-Q
May 16, 2011

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: March 31, 2011

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

For the transition period from _____ to _____

Commission File Number: 000-17363

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

Illinois
(State or Other Jurisdiction of
Incorporation or Organization)

36-3442829
(I.R.S. Employer
Identification No.)

6431 West Oakton, Morton Grove, IL 60053
(Address of Principal Executive Offices, Zip Code)

(847-967-1010)
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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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, or a non-accelerated filer or a smaller reporting company. See definition 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 March 31, 2011, the issuer had 16,443,809 shares of common stock, no par value, outstanding.

LIFEWAY FOODS, INC.
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Condition
March 31, 2011 and 2010 (Unaudited) and December 31, 2010

	(Unaudited)		
	March 31,		December 31,
	2011	2010	2010
ASSETS			
Current assets			
Cash and cash equivalents	\$2,075,791	\$652,177	\$3,229,939
Investments	1,314,382	4,397,781	1,079,232
Certificates of deposits in financial institutions	250,000	550,000	250,000
Inventories	4,752,054	3,869,825	3,985,374
Accounts receivable, net of allowance for doubtful accounts and discounts	8,346,560	7,726,348	6,793,276
Prepaid expenses and other current assets	126,919	38,447	158,315
Other receivables	74,879	49,081	104,680
Deferred income taxes	368,176	303,431	328,470
Refundable income taxes	---	476,915	906,748
Total current assets	17,308,761	18,064,005	16,836,034
Property and equipment, net	15,129,655	14,481,822	15,152,713
Intangible assets			
Goodwill and other non amortizable brand assets	14,068,091	13,806,091	14,068,091
Other intangible assets, net of accumulated amortization of \$2,500,066 and \$1,773,968 at March 31, 2011 and 2010 and \$2,304,107 at December 31, 2010, respectively	5,805,934	6,083,670	6,001,893
Total intangible assets	19,874,025	19,889,761	20,069,984
Other assets	---	500,000	---
Total assets	\$52,312,441	\$52,935,588	\$52,058,731
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Checks written in excess of bank balances	\$1,067,073	\$533,458	\$1,341,210
Current maturities of notes payable	2,364,774	4,733,354	2,851,610
Accounts payable	3,781,059	3,116,627	4,183,481
Accrued expenses	595,841	637,263	509,459
Accrued income taxes	430,246	---	---
Total current liabilities	8,238,993	9,020,702	8,885,760
Notes payable	5,995,558	6,502,222	6,122,225

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Deferred income taxes	3,332,473	3,318,273	3,401,728
Total liabilities	17,567,024	18,841,197	18,409,713
Stockholders' equity			
Common stock, no par value; 20,000,000 shares authorized; 17,273,776 shares issued; 16,443,809 shares outstanding at March 31, 2011; 17,273,776 shares issued; 16,754,572 shares outstanding at March 31, 2010; 17,273,776 shares issued; 16,536,657 shares outstanding at December 31, 2010			
	6,509,267	6,509,267	6,509,267
Paid-in-capital	2,032,516	1,992,257	2,032,516
Treasury stock, at cost	(7,271,836)	(4,182,190)	(6,425,546)
Retained earnings	33,501,646	29,722,098	31,575,875
Accumulated other comprehensive income (loss), net of taxes	(26,176)	52,959	(43,094)
Total stockholders' equity	34,745,417	34,094,391	33,649,018
Total liabilities and stockholders' equity	\$52,312,441	\$52,935,588	\$52,058,731

See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Income and Comprehensive Income
For the Three Months Ended March 31, 2011 and 2010 (Unaudited)
and for the Year Ended December 31, 2010

	2011	(Unaudited) March 31	2010	December 31, 2010
Sales	\$ 19,047,266		\$ 15,964,159	\$ 63,543,445
Less: discounts and allowances	(1,743,363)		(1,075,013)	(5,043,552)
Net Sales	17,303,903	17,303,903	14,889,146	14,889,146
Cost of goods sold		9,651,272		8,076,612
Depreciation expense		376,513		403,375
Total cost of goods sold		10,027,785		8,479,987
Gross profit		7,276,118		6,409,159
Selling expenses		2,221,808		1,994,847
General and administrative		1,592,729		1,490,157
Amortization expense		195,959		175,760
Total Operating Expenses		4,010,496		3,660,764
Income from operations		3,265,622		2,748,395
Other income (expense):				
Interest and dividend income		17,593		54,508
Rental income		---		1,235
Interest expense		(62,130)		(95,942)
Gain (loss) on sale of investments, net		(2,597)		(29,259)
Total other income (expense)		(47,134)		(69,458)
Income before provision for income taxes		3,218,488		2,678,937
Provision for income taxes		1,292,717		910,248
				2,823,986

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Net income	\$ 1,925,771	\$ 1,768,689	\$ 3,622,466
Basic and diluted earnings per common share	0.12	0.11	0.22
Weighted average number of shares outstanding	16,489,954	16,761,774	16,663,557
COMPREHENSIVE INCOME			
Net income	\$ 1,925,771	\$ 1,768,689	\$ 3,622,466
Other comprehensive income (loss), net of tax:			
Unrealized gains on investments (net of tax)	15,451	46,143	114,297
Less reclassification adjustment for (gains) losses included in net income (net of taxes)	1,467	17,175	(147,032)
Comprehensive income	\$ 1,942,689	\$ 1,832,007	\$ 3,589,731

See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
 Consolidated Statements of Changes in Stockholders' Equity
 For the Three Months Ended March 31, 2011 and 2010 (Unaudited)
 and for the Year Ended December 31, 2010

	Common Stock, No Par Value		# of Shares of	# of Shares Treasury Stock	# of Shares Common Stock	Paid In Capital	Treasury Stock	Retained Earnings	Accumulated
	20,000,000 Shares Authorized								Other Comprehensive Income (Loss), Net of Tax
	# of Shares Issued	# of Shares Outstanding							
Balances at December 31, 2009	17,273,776	16,778,555	495,221	\$6,509,267	\$1,965,786	\$(3,846,773)	\$27,953,409	\$(10,359)	
Redemption of stock	---	(252,398)	252,398	---	---	(2,666,288)	---	---	
Issuance of treasury stock for compensation	---	10,500	(10,500)	---	66,730	87,515	---	---	
Issuance of treasury stock for Fresh Made acquisition	---			---			---	---	
Other comprehensive income (loss): Unrealized gains on securities, net of taxes and reclassification adjustment	---	---	---	---	---	---	---	(32,735)	
Net income for the year ended December 31, 2010	---	---	---	---	---	---	3,622,466	---	

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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)	\$31,532,781
Balances at January 1, 2010	17,273,776	16,778,555	495,221	\$6,509,267	\$1,965,786	\$(3,846,773)	\$27,953,409	\$(10,359)	\$27,843,050
Redemption of stock	---	(28,365)	28,365	---	---	(340,105)	---	---	(368,470)
Issuance of treasury stock for compensation	---	4,382	(4,382)	---	26,471	4,688	---	---	31,531
Other comprehensive income (loss): Unrealized gains on securities, net of taxes and reclassification adjustment	---	---	---	---	---	---	---	63,318	63,318
Net income for the three months ended March 31, 2010	---	---	---	---	---	---	1,768,689	---	1,768,689
Balances at March 31, 2010	17,273,776	16,754,572	519,204	\$6,509,267	\$1,992,257	\$(4,182,190)	\$29,722,098	\$52,959	\$29,669,139
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)	\$31,532,781
Redemption of stock	---	(92,848)	92,848	---	---	(846,290)	---	---	(939,138)
Other comprehensive income (loss): Unrealized gains on securities, net of taxes and reclassification adjustment	---	---	---	---	---	---	---	16,918	16,918
	---	---	---	---	---	---	1,925,771	---	1,925,771

Net income for
the three
months ended
March 31, 2011

Balances at

March 31, 2011 17,273,776 16,443,809 829,967 \$6,509,267 \$2,032,516 \$(7,271,836) \$33,501,646 \$(26,176) \$3

See accompanying notes to financial statements

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

	(Unaudited)		December
	March 31,		2010
	2011	2010	2010
Cash flows from operating activities:			
Net income	\$1,925,771	\$1,768,689	\$3,622,466
Adjustments to reconcile net income to net cash flows from operating activities, net of acquisition:			
Depreciation and amortization	572,472	579,135	2,118,282
Loss (Gain) on sale of investments, net	2,597	29,259	(250,480)
Deferred income taxes	(119,129)	(222,915)	(96,918)
Treasury stock issued for compensation	---	31,159	154,245
Increase in allowance for doubtful accounts	20,000	---	17,754
(Increase) decrease in operating assets:			
Accounts receivable	(1,573,284)	(1,726,610)	(811,292)
Other receivables	29,801	677	(54,922)
Inventories	(766,680)	(572,849)	(682,398)
Refundable income taxes	906,748	832,063	402,230
Prepaid expenses and other current assets	31,396	2,250	(117,618)
Increase (decrease) in operating liabilities:			
Accounts payable	(402,422)	352,627	1,419,479
Accrued expenses	86,382	22,919	(104,885)
Income taxes payable	430,246	---	---
Net cash provided by operating activities	1,143,898	1,096,404	5,615,943
Cash flows from investing activities:			
Purchases of investments	(445,049)	(356,498)	(2,161,552)
Proceeds from sale of investments	234,388	531,455	5,669,158
Proceeds from redemption of certificates of deposit	---	---	402,005
Purchases of property and equipment	(353,455)	(603,015)	(2,229,274)
Acquisition of the assets of First Juice	---	---	(270,000)
Net cash provided by (used in) investing activities	(564,116)	(428,058)	1,410,337
Cash flows from financing activities:			
Proceeds of note payable	---	---	250,000
Checks written in excess of bank balances	(274,137)	190,482	998,234
Purchases of treasury stock	(846,290)	(340,105)	(2,666,288)
Repayment of notes payable	(613,503)	(496,953)	(3,008,694)
Net cash used in financing activities	(1,733,930)	(646,576)	(4,426,748)
Net (decrease) increase in cash and cash equivalents	(1,154,148)	21,770	2,599,532
Cash and cash equivalents at the beginning of the period	3,229,939	630,407	630,407
Cash and cash equivalents at the end of the period	\$2,075,791	\$652,177	\$3,229,939

See accompanying notes to financial statements

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LIFEWAY FOODS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

and December 31, 2010

Note 1 – NATURE OF BUSINESS

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

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation

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

Principles of consolidation

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

Use of estimates

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

Revenue Recognition

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

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2011 and 2010
and December 31, 2010

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and cash equivalents

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

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

Investments

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

Accounts receivable

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

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

Inventories

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

Property and equipment

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

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

Category	Years
Buildings and improvements	31 and 39

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Machinery and equipment	5 – 12
Office equipment	5 – 7
Vehicles	5

LIFEWAY FOODS, INC. AND SUBSIDIARIES
 Notes to Consolidated Financial Statements
 March 31, 2011 and 2010
 and December 31, 2010

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.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2011 and 2010
and December 31, 2010

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

Treasury stock

Treasury stock is recorded using the cost method.

Advertising and promotional costs

The Company expenses advertising costs as incurred. For the year ended December 31, 2010 and for the three months ended March 31, 2011 and 2010 total advertising costs and promotional discounts and allowances were \$4,545,043, \$1,445,997 and \$1,361,694, respectively. For the year ended 2010 and for the three months ended March 31, 2011 and 2010, \$2,390,002, \$829,345, and \$829,068 were classified as advertising expense, respectively, and \$2,155,041, \$616,652, and \$532,626 were considered to be promotional discounts and allowances and were classified as reductions of sales, 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 three months ended March 31, 2011 and 2010 and for the year ended December 31, 2010, diluted and basic earnings per share were the same, as the effect of dilutive securities options outstanding was not significant.

Reclassification

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

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

and December 31, 2010

Note 3 – ACQUISITIONS

On October 20, 2010, Lifeway purchased certain assets of First Juice, Inc., a producer of organic fruit and vegetable juice beverages designed for children (“First”). The consideration for substantially all of the assets was an aggregate of \$770,000, consisting of a \$500,000 previous investment in preferred stock and an additional \$270,000 cash paid in 2010. Production was moved to Lifeway facilities upon closing of the acquisition. The acquisition was consummated to expand the Company’s presence in the children’s market, increase distribution channels for existing Lifeway products, and increase diversification of the Company’s products. There were no significant liabilities assumed. Acquisition costs for legal and professional fees have been included in General and Administrative costs and were not significant. The entire amount of goodwill resulting from the acquisition is tax deductible.

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

Trade names	\$	268,000
Other current assets		6,000
Customer lists		199,000
Fixed assets		35,000
Non-compete agreement		-0-
Non amortizable goodwill and brand asset		262,000
Total fair value of assets acquired and liabilities assumed	\$	770,000

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

Note 4 – INTANGIBLE ASSETS

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

	March 31, 2011		March 31, 2010		December 31, 2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Recipes	\$ 43,600	\$ 43,600	\$ 43,600	\$ 43,600	\$ 43,600	\$ 43,600
Customer lists and other customer related intangibles	4,504,200	1,166,160	4,305,200	695,568	4,504,200	1,039,323
Lease acquisition	87,200	81,750	87,200	70,590	87,200	79,941
Customer relationship	985,000	383,056	985,000	300,972	985,000	362,526
Trade names	2,248,000	621,100	1,980,000	484,000	2,248,000	585,267
Formula	438,000	204,400	438,000	160,600	438,000	193,450
	\$ 8,306,000	\$ 2,500,066	\$ 7,857,638	\$ 1,773,968	\$ 8,306,000	\$ 2,304,107

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

and December 31, 2010

Note 4 – INTANGIBLE ASSETS - Continued

Amortization expense is expected to be as follows for the 12 months ending March 31:

2012	\$	780,200
2013		760,317
2014		714,192
2015		711,367
2016		711,367
Thereafter		2,128,491
	\$	5,805,934

Amortization expense during the three months ended March 31, 2011 and 2010 and the year ended December 31, 2010 was \$195,959, \$175,760 and \$724,537, respectively.

Note 5 – INVESTMENTS

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

March 31, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equities	\$261,472	\$6,227	\$(37,440)	\$230,259
Mutual Funds	103,346	1,902	(798)	104,450
Preferred Securities	203,514	---	(12,984)	190,530
Corporate Bonds	792,379	3,941	(7,177)	789,143
Total	\$1,360,711	\$12,070	\$(58,399)	\$1,314,382
March 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equities	\$1,278,619	\$190,688	\$(120,631)	\$1,348,676
Mutual Funds	228,746	6,781	(4,326)	231,201
Preferred Securities	388,705	7,450	(63,703)	332,452
Corporate Bonds	1,595,713	84,119	(6,877)	1,672,955
Government Agency Obligations	815,778	3,433	(6,714)	812,497
Total	\$4,307,561	\$292,471	\$(202,251)	\$4,397,781
December 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equities	\$ 225,573	\$ 16,173	\$ (68,974)	\$ 172,772
Mutual Funds	202,108	4,661	(2,017)	204,752
Preferred Securities	228,514	—	(18,329)	210,185

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Corporate Bonds	496,451	843	(5,771)	491,523
Total	\$ 1,152,646	\$ 21,677	\$ (95,091)	\$ 1,079,232

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LIFEWAY FOODS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

and December 31, 2010

Note 5 – INVESTMENTS - Continued

Proceeds from the sale of investments were \$5,669,158, \$234,388 and \$531,455 during the year ended December 31, 2010 and for the three months ended March 31, 2011 and 2010, respectively.

Gross gains of \$451,420, \$15,652 and \$23,737 and gross losses of \$200,940, \$18,249 and \$52,996 were realized on these sales during the year ended December 31, 2010 and for the three months ended March 31, 2011 and 2010, 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 March 31, 2011 and 2010 and at December 31, 2010:

March 31, 2011	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	\$ 163,063	\$ (7,801)	\$ 25,270	\$ (29,639)	\$ 188,333	\$ (37,440)
Mutual Funds	20,124	(680)	5,824	(118)	25,948	(798)
Preferred Securities	---	---	190,530	(12,984)	190,530	(12,984)
Corporate Bonds	409,750	(7,177)	---	---	409,750	(7,177)
	\$ 592,937	\$ (15,658)	\$ 221,624	\$ (42,741)	\$ 814,561	\$ (58,399)

March 31, 2010	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	\$ 79,393	\$ (29,937)	\$ 205,060	\$ (90,694)	\$ 284,453	\$ (120,631)
Mutual Funds	414	(4)	26,034	(4,322)	26,448	(4,326)
Preferred Securities	---	---	310,252	(63,703)	310,252	(63,703)
Corporate Bonds	164,144	(5,510)	103,645	(1,367)	267,789	(6,877)
Government Agency Obligations	479,469	(5,563)	85,376	(1,151)	564,845	(6,714)
	\$ 723,420	\$ (41,014)	\$ 730,367	\$ (161,237)	\$ 1,453,787	\$ (202,251)

December 31, 2010	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	\$ 48,202	\$ (11,675)	\$ 101,467	\$ (57,299)	\$ 149,669	\$ (68,974)
Mutual Funds	—	—	85,061	(2,017)	85,061	(2,017)
Preferred Securities	—	—	210,185	(18,329)	210,185	(18,329)

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Corporate Bonds	146,710	(2,296)	122,532	(3,475)	269,242	(5,771))
	\$ 194,912	\$ (13,971)	\$ 519,245	\$ (81,120)	\$ 714,157	\$ (95,091))

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

and December 31, 2010

Note 5 – INVESTMENTS - Continued

Equities, Mutual Funds, Preferred Securities, Corporate Bonds and Government Agency Obligations - The Company's investments in equity securities, mutual funds, corporate bonds and government agency obligations consist of investments in common stock, preferred stock and debt securities of companies in various industries. As of March 31, 2011, there were nine equity securities, fourteen mutual fund securities, two preferred securities, and five 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 does not consider any material investments to be other-than-temporarily impaired at March 31, 2011.

Note 6 – INVENTORIES

Inventories consist of the following:

	March 31,		December 31,	
	2011	2010	2010	2010
Finished goods	\$ 1,959,323	\$ 1,287,500	\$ 1,636,988	
Production supplies	1,637,602	1,571,096	1,527,064	
Raw materials	1,155,129	1,011,229	821,322	
Total inventories	\$ 4,752,054	\$ 3,869,825	\$ 3,985,374	

Note 7 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	March 31,		December 31,	
	2011	2010	2010	2010
Land	\$ 1,178,160	\$ 1,178,160	\$ 1,178,160	
Buildings and improvements	11,367,274	10,684,220	11,328,860	
Machinery and equipment	14,006,251	12,677,396	13,713,649	
Vehicles	1,073,745	961,245	976,745	
Office equipment	374,564	276,427	352,135	
Construction in process	---	207,830	96,990	
	27,999,994	25,985,278	27,646,539	
Less accumulated depreciation	12,870,339	11,503,456	12,493,826	
Total property and equipment	\$ 15,129,655	\$ 14,481,822	\$ 15,152,713	

Depreciation expense during the three months ended March 31, 2011 and 2010 and for the year ended December 31, 2010 was \$376,513, \$403,375 and \$1,393,745, respectively.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2011 and 2010
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Note 8 – ACCRUED EXPENSES

Accrued expenses consist of the following:

	2011	March 31, 2011	2010	December 31, 2010
Accrued payroll and payroll taxes	\$	320,531	\$	298,246
Accrued property tax		203,933		222,537
Other		71,377		116,480
	\$	595,841	\$	637,263
				509,459

Note 9 – NOTES PAYABLE

Notes payable consist of the following:

	2011	March 31, 2011	2010	December 31, 2010
Note payable to Private Bank in monthly installments of \$42,222, plus variable interest rate, currently at 2.761%, with a balloon payment of \$5,066,667 due February 6, 2014. Collateralized by substantially all assets of the Company.	\$	6,502,222	\$	7,008,889
				6,628,889
Line of credit with Private Bank at variable interest rate, currently at 2.761%. The agreement has been extended with terms allowing borrowings up to \$2.0 million, maturing on May 31, 2011. The Company is in the process of negotiating a renewal of this facility at maturity. Collateralized by substantially all assets of the Company.		---	500,000	—
Line of credit with Morgan Stanley for borrowings up to \$2.8 million at variable interest rate, currently at 3.01% due on demand. Collateralized by investments with a fair value of \$1,077,323, cash and CD's totaling \$1,711,934 at March 31, 2011.		1,858,110	2,484,522	2,344,946
Notes payable to Ilya Mandel & Michael Edelson, subordinated to Private Bank, payable in quarterly installments of \$341,875, plus interest at the floating rate per annum (3.25% at March 31, 2010). This		---	1,242,165	—

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balance was paid in full during August, 2010.

Total notes payable	8,360,332		11,235,576	8,973,835
Less current maturities	2,364,774		4,733,354	2,851,610
Total long-term portion	\$ 5,995,558	\$	6,502,222	6,122,225

In accordance with the Private Bank agreements referenced above, the Company is subject to minimum fixed charged ratio and tangible net worth thresholds. At March 31, 2011, the Company was in compliance with these covenants.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2011 and 2010
and December 31, 2010

Note 9 – NOTES PAYABLE - Continued

Maturities of notes payables are as follows:

For the Period Ended March 31,

2012	\$	2,364,774
2013		506,664
2014		5,488,894
Total	\$	8,360,332

Note 10 – PROVISION FOR INCOME TAXES

The provision for income taxes consists of the following:

	For the Three Months Ended		For the Year
	March 31,		Ended
	2011	2010	December
			31,
			2010
Current:			
Federal	\$ 1,005,605	\$ 916,582	2,269,819
State and local	406,241	216,581	651,085
Total current	1,411,846	1,133,163	2,920,904
Deferred	(119,129)	(222,915)	(96,918)
Provision for income taxes	\$ 1,292,717	\$ 910,248	2,823,986

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

	For the Three Months Ended		For the Year
	March 31,		Ended
	2011	2010	December 31,
			2010
Federal income tax expense computed at the statutory rate	\$ 1,094,286	\$ 910,838	\$ 2,180,228
State and local tax expense, net	305,756	128,589	651,085
Permanent differences	(58,415)	(129,179)	(117,247)
Tax credits and other	(48,910)	---	109,920
Provision for income taxes	\$ 1,292,717	\$ 910,248	\$ 2,823,986

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2011 and 2010
and December 31, 2010

Note 10 – PROVISION FOR INCOME TAXES - Continued

Amounts for deferred tax assets and liabilities are as follows:

	2011	March 31, 2010	December 31, 2010
Non-current deferred tax assets (liabilities) arising from:			
Temporary differences -			
Accumulated depreciation and amortization from purchase accounting adjustments	\$ (3,604,041)	\$ (3,655,289)	\$ (3,673,296)
Capital loss carry-forwards	271,568	337,016	271,568
Total non-current net deferred tax liabilities	(3,332,473)	(3,318,273)	(3,401,728)
Current deferred tax assets arising from:			
Unrealized losses on investments	24,384	(37,261)	30,320
Impairment of investments	---	59,003	4,232
Inventory	212,089	163,979	168,875
Allowance for doubtful accounts and discounts	131,703	117,710	125,043
Total current deferred tax assets	368,176	303,431	328,470
Net deferred tax liability	\$ (2,964,297)	\$ (3,014,842)	\$ (3,073,258)

Note 11 – SUPPLEMENTAL CASH FLOW INFORMATION

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

Cash paid for interest and income taxes are as follows:

	For the Three Months Ended March 31,		For the Year Ended December 31,
	2011	2010	2010
Interest	\$ 58,624	\$ 106,643	\$ 375,347
Income taxes	\$ 200,000	\$ 301,100	\$ 2,824,824

Note 12 – STOCK AWARD AND STOCK OPTION PLANS

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

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

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

and December 31, 2010

Note 12 – STOCK AWARD AND STOCK OPTION PLANS

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

Note 13 – FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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Note 14 – RECENT ACCOUNTING PRONOUNCEMENTS

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

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

Comparison of Quarter Ended March 31, 2011 to Quarter Ended March 31, 2010

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

Results of Operations

Total consolidated gross sales increased by \$3,083,107 (approximately 19%) to \$19,047,266 during the three month period ended March 31, 2011 from \$15,964,159 during the same three month period in 2010. This increase is primarily attributable to increased sales and awareness of flagship line, Kefir, as well as ProBugs® Organic Kefir for kids.

Cost of goods sold as a percentage of net sales, excluding depreciation expense, was approximately 55.8% during the first quarter of 2011, compared to approximately 54.2% during the same period in 2010. The slight increase was primarily attributable to the cost of transportation and other petroleum based production supplies partially offset by the decreased cost of conventional milk, our largest raw material. The cost of milk was approximately 10% lower during the first quarter 2011 when compared to the same period in 2010. Gross profit increased approximately 14% during the first quarter of 2011 compared with the same period in 2010.

Operating expenses as a percentage of net sales were approximately 23.2% during the first quarter of 2011 compared to approximately 24.6% during the same period in 2010. This decrease was primarily attributable to decreased promotional allowances as compared to the same period in 2010.

Total operating income increased by \$517,227 (approximately 19%) to \$3,265,622 during the first quarter of 2011, from \$2,748,395 during the same period in 2010.

Total other expenses for the first quarter of 2011 were \$47,134 compared with total expenses of \$69,458 during the same period in 2010. This decrease in total other expenses is primarily attributable to a higher realized loss on the sale of investments during the first quarter 2010 compared to the same period in 2011. Additionally, interest expense decreased by \$33,812 to \$62,130 during the first quarter of 2011 from \$95,942 during the same period in 2010. Investments are discussed in Note 5 of the Notes to Consolidated Financial Statements.

Total net income was \$1,925,771 or \$0.12 per share for the three month period ended March 31, 2011 compared to \$1,768,689 or \$0.11 per share in the same period in 2010. This represents a 9% increase in net income for the first quarter of 2011 compared to the same period in 2010.

Liquidity and Capital Resources

Sources and Uses of Cash

Net cash provided by operating activities was \$1,143,898 during the three months ended March 31, 2011 which is an increase of \$47,494 when compared to the same period in 2010. This increase is primarily attributable to a decrease in deferred income taxes and accounts receivable.

Net cash used in investing activities was \$564,116 during the three months ended March 31, 2011 which is an increase of \$136,058 compared to the same period in 2010. This increase is primarily due to an increase in purchases of

investments.

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The Company had a net increase in cash and cash equivalents of \$1,423,614 during the first quarter of 2011 compared to the same period in 2010. The Company had cash and cash equivalents of \$2,075,791 as of March 31, 2011 compared with cash and cash equivalents of \$652,177 as of March 31, 2010.

Assets and Liabilities

Total assets were \$52,312,441 as of March 31, 2011, which is an increase of \$253,710 when compared to December 31, 2010, and a decrease of \$623,147 when compared to March 31, 2010. This is primarily due to the other assets balance of \$500,000 related to the Company's previous investment in preferred stock of First Juice, Inc. as of March 31, 2010.

Total current liabilities were \$8,238,993 as of March 31, 2011, which is a decrease of \$646,767 when compared to December 31, 2010. Total current liabilities decreased by \$781,709 when compared to March 31, 2010. This is primarily due to the Company's repayment of notes payable during 2010.

Long term notes payables decreased by \$126,667 as of March 31, 2011, when compared to December 31, 2010 and decreased by \$506,664 when compared to March 31, 2010. The balance of the long term notes payable as of March 31, 2011 was \$5,995,558.

Total stockholder's equity was \$34,745,417 as of March 31, 2011, which is an increase of \$1,096,399 when compared to December 31, 2010. This is primarily due to the increase in retained earnings of \$1,925,771 when compared to December 31, 2010 resulting from net income for the three month period ended March 31, 2011. Total stockholder's equity increased by \$651,026 when compared to March 31, 2010. This is primarily due to the increase in retained earnings of \$3,779,548, which was offset by an increase in treasury stock of \$3,089,646 as of March 31, 2011, when compared to March 31, 2010.

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

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

Other Developments

On August 24, 2010 the USDA ruled to exempt Kefir beverages from the Class I milk classification, which provides exemptions from the Class I definition for Kefir and other drinkable yogurt products containing at least 20% yogurt (by weight) as well as products intended to be meal replacements. The final rule went into effect January 1, 2011.

This change from Class I to Class II costing should have a positive impact on what Lifeway pays for its key milk ingredient, which is about 80% of the products' cost of goods sold. The Company reported that in September 2010, it purchased approximately 4.3 million pounds of Class I conventional milk at an average price of \$0.18 per pound. Under the new pricing structure, the Company would have paid about \$0.16 per pound and saved approximately \$85,000. Historically, the price of Class II milk is typically 10 to 20% lower than the price of Class I milk.

In addition to having a positive effect on gross margins, the improved input costs will allow all of Lifeway's Kefir-based products to be more competitive with other non-Class I milk products, such as yogurts in the marketplace.

This expected increase in cash flow will provide greater financial flexibility, enabling the Company to expand marketing efforts or retain cash for future initiatives. Lifeway expects to see this improvement throughout 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS.

Not applicable.

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

(c) PURCHASES OF THE COMPANY'S SECURITIES

Period	(a) Total Numbers of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs*	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs*
Jan. 1, 2011 to Jan. 31, 2011	32,007	9.19	32,007	265,595
Feb. 1, 2011 to Feb. 28, 2011	23,341	9.21	23,341	242,254
March 1, 2011 to March 31, 2011	37,500	8.79	37,500	204,754
Total	92,848	9.06	92,848	204,754

*The Company established a share repurchase program approved May 7, 2010 for up to 200,000 shares with a plan expiration date of one year from the date of the first purchase, and on January 1, 2011, the Company approved a new share repurchase program for up to 250,000 shares with a plan expiration date of one year from the date of the first purchase.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. REMOVED AND RESERVED.

ITEM 5. OTHER INFORMATION.

On May 12, 2011, the Company announced its financial results for the fiscal quarter ended March 31, 2011 and certain other information. A copy of the Company's press release announcing these financial results and certain other information is attached as Exhibit 99.1 hereto. The information contained in Exhibit 99.1 hereto is being furnished, and should not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities imposed by that Section. The information contained in Exhibit 99.1 shall not be incorporated by reference into any registration statement or other document or filing under the Securities Act of 1933, as amended, except as may be expressly set forth in a specific filing. The press release filed as an exhibit to this report includes "safe harbor" language pursuant to the Private Securities Litigation Reform Act of 1995, as amended, indicating that certain statements about the Company's business and other matters contained in the press release are "forward-looking." The press release also cautions investors that "forward-looking" statements may be different from actual operating results. Finally, the press release states that a more thorough discussion of risks and uncertainties which may affect the Company's operating results is included in the Company's reports on file with the Securities and Exchange Commission.

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 May 12, 2011.

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: May 16, 2011

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

Date: May 16, 2011

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

EXHIBIT INDEX

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