LIFEWAY FOODS INC
Form 10-Q
August 15, 2011

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: June 30, 2011

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 (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 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, 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 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 June 30, 2011, the issuer had 16,430,809 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
June 30, 2011 and 2010 (unaudited) and December 31, 2010

	(unaudited) June 30, 2011	2010	December 31, 2010
ASSETS			
Current assets			
Cash and cash equivalents	$1,398,523	$858,490	$3,229,939
Investments	1,172,193	3,411,804	1,079,232
Certificates of deposits in financial institutions	300,000	550,000	250,000
Inventories	5,608,151	4,154,719	3,985,374
Accounts receivable, net of allowance for doubtful accounts and discounts	8,891,068	7,780,512	6,793,276
Prepaid expenses and other current assets	199,866	70,130	158,315
Other receivables	9,825	142,389	104,680
Deferred income taxes	394,376	389,249	328,470
Refundable income taxes		---	906,748
Total current assets	17,974,002	17,357,293	16,836,034
Property and equipment, net	15,237,279	14,890,327	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 $2,696,023 and $1,931,091 at June 30, 2011 and 2010 and $2,304,107 at December 31, 2010, respectively	5,609,977	5,907,909	6,001,893
Total intangible assets	19,678,068	19,714,000	20,069,984
Other assets	---	500,000	---
Total assets	$52,889,349	$52,461,620	$52,058,731
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Checks written in excess of bank balances	$1,709,050	$847,374	$1,341,210
Current maturities of notes payable	1,892,042	4,431,873	2,851,610
Accounts payable	4,174,835	2,259,236	4,183,481
Accrued expenses	552,058	531,553	509,459
Accrued income taxes	378,482	604,323	---
Total current liabilities	8,706,467	8,674,359	8,885,760
Notes payable	5,957,795	6,397,780	6,122,225

Deferred income taxes	3,329,537	3,262,795	3,401,728
Total liabilities	17,993,799	18,334,934	18,409,713
Stockholders' equity			
Common stock, no par value; 20,000,000 shares authorized; 17,273,776 shares issued; 16,430,809 shares outstanding at June 30, 2011; 17,273,776 shares issued; 16,657,478 shares outstanding at June 30, 2010; 17,273,776 shares issued; 16,536,657 shares outstanding at December 31, 2010	6,509,267	6,509,267	6,509,267
Paid-in-capital	2,032,516	2,018,727	2,032,516
Treasury stock, at cost	(7,397,344)	(5,256,054)	(6,425,546)
Retained earnings	33,767,188	30,906,602	31,575,875
Accumulated other comprehensive income (loss), net of taxes	(16,077)	(51,856)	(43,094)
Total stockholders' equity	34,895,550	34,126,686	33,649,018
Total liabilities and stockholders' equity	$52,889,349	$52,461,620	$52,058,731

See accompanying notes to financial statements

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LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Income and Comprehensive Income
For the Three and Six Months Ended June 30, 2011 and 2010 (unaudited)
and for the Year Ended December 31, 2010

	(unaudited) Three Months Ended June 30,				(unaudited) Six Months Ended June 30,			
	2011		2010		2011		2010	
Sales	$19,913,003		15,546,556		38,960,269		$31,510,715	
Less: discounts and allowances	(1,715,085)		(1,261,195)		(3,458,448)		(2,336,208)	
Net Sales	18,197,918	18,197,918	14,285,361	14,285,361	35,501,821	35,501,821	29,174,507	2
Cost of goods sold		12,535,368		8,454,095		22,186,640		1
Depreciation expense		390,694		281,220		767,207		6
Total cost of goods sold		12,926,062		8,735,315		22,953,847		1
Gross profit		5,271,856		5,550,046		12,547,974		1
Selling expenses		2,790,507		1,741,886		5,012,315		3
General and administrative		1,585,178		1,478,062		3,177,907		2
Amortization expense		195,957		175,761		391,916		3
Total Operating Expenses		4,571,642		3,395,709		8,582,138		7
Income from operations		700,214		2,154,337		3,965,836		4
Other income (expense):								
Interest and dividend income		17,094		53,176		34,687		1
Rental income		650		2,800		650		4
Interest expense		(72,298)		(80,164)		(134,428)		(
Gain (loss) on sale of investments, net		541		84,043		(2,056)		5
Total other income (expense)		(54,013)		59,855		(101,147)		(
Income before provision for income taxes		646,201		2,214,192		3,864,689		4

Provision for income taxes	380,659	1,029,688	1,673,376	1
Net income	$265,542	$1,184,504	$2,191,313	$2
Basic and diluted earnings per common share	0.02	0.07	0.13	0
Weighted average number of shares outstanding	16,434,314	16,701,539	16,461,981	1
COMPREHENSIVE INCOME				
Net income	$265,542	$1,184,504	$2,191,313	$2
Other comprehensive income (loss), net of tax:				
Unrealized gains on investments (net of tax)	10,404	(55,842)	25,855	(
Less reclassification adjustment for (gains) losses included in net income (net of taxes)	(305)	(49,333)	1,162	(
Comprehensive income	$275,641	$1,079,329	$2,218,330	$2

See accompanying notes to financial statements

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LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Six Months Ended June 30, 2011 and 2010 (unaudited)
and for the Year Ended December 31, 2010

	Common Stock, No Par Value 20,000,000 Shares Authorized							Accumulated	
	# of Shares Issued	# of Shares Outstanding	# of Shares of Treasury Stock	Common Stock	Paid In Capital	Treasury Stock	Retained Earnings	Other Comprehensive Income (Loss), Net of Tax	
Balances at December 31, 2009	17,273,776	16,778,555	495,221	$6,509,267	$1,965,786	$(3,846,773)	$27,953,409	$(10,359)	32
Redemption of stock	---	(252,398)	252,398	---	---	(2,666,288)	---	---	(2
Issuance of treasury stock for compensation	---	10,500	(10,500)	---	66,730	87,515	---	---	15
Issuance of treasury stock for Fresh Made acquisition	---			---			---	---	---
Other comprehensive income (loss): Unrealized gains on securities, net of taxes and reclassification adjustment	---	---	---	---	---	---	---	(32,735)	(3
Net income for the year ended December 31, 2010	---	---	---	---	---	---	3,622,466	---	3,(
Balances at December 31,	17,273,776	16,536,657	737,119	$6,509,267	$2,032,516	$(6,425,546)	$31,575,875	$(43,094)	$33

2010									
Balances at January 1, 2010	17,273,776	16,778,555	495,221	$6,509,267	$1,965,786	$(3,846,773)	$27,953,409	$(10,359)	32
Redemption of stock	---	(129,841)	129,841	---	---	(1,418,657)	---	---	(1
Issuance of treasury stock for compensation	---	8,764	(8,764)	---	52,941	9,376	---	---	62
Other comprehensive income (loss): Unrealized gains on securities, net of taxes and reclassification adjustment	---	---	---	---	---	---	---	(41,497)	(4
Net income for the six months ended June 30, 2010	---	---	---	---	---	---	2,953,193	---	2,
Balances at June 30, 2010	17,273,776	16,657,478	616,298	$6,509,267	$2,018,727	$(5,256,054)	$30,906,602	$(51,856)	$34
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	---	(105,848)	105,848	---	---	(971,798)	---	---	(9
Other comprehensive income (loss): Unrealized gains on securities, net of taxes and reclassification adjustment	---	---	---	---	---	---	---	27,017	27
Net income for the six months ended June 30, 2011	---	---	---	---	---	---	2,191,313	---	2,

Balances at June 30, 2011	17,273,776	16,430,809	842,967	$6,509,267	$2,032,516	$(7,397,344)	$33,767,188	$(16,077)	$34

See accompanying notes to financial statements

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

	(unaudited) June 30, 2011	2010	December 31, 2010
Cash flows from operating activities:			
Net income	$2,191,313	$2,953,193	$3,622,466
Adjustments to reconcile net income to net cash flows from operating activities, net of acquisition:			
Depreciation and amortization	1,159,123	1,036,116	2,118,282
Loss (Gain) on sale of investments, net	2,056	(54,784)	(250,480)
Deferred income taxes	(156,040)	(290,465)	(96,918)
Treasury stock issued for compensation	---	62,317	154,245
Increase in allowance for doubtful accounts	20,000	---	17,754
(Increase) decrease in operating assets:			
Accounts receivable	(2,117,792)	(1,780,774)	(811,292)
Other receivables	94,855	(92,631)	(54,922)
Inventories	(1,622,777)	(857,743)	(682,398)
Refundable income taxes	906,748	1,308,978	402,230
Prepaid expenses and other current assets	(41,551)	(29,433)	(117,618)
Increase (decrease) in operating liabilities:			
Accounts payable	(8,646)	(504,764)	1,419,479
Accrued expenses	42,599	(82,791)	(104,885)
Income taxes payable	378,482	604,323	---
Net cash provided by operating activities	848,370	2,271,542	5,615,943
Cash flows from investing activities:			
Purchases of investments	(582,697)	(538,852)	(2,161,552)
Proceeds from sale of investments	532,640	1,502,724	5,669,158
Investments in certificates of deposits	(50,000)		
Proceeds from redemption of certificates of deposit	---	102,545	402,005
Purchases of property and equipment	(747,250)	(1,292,741)	(2,229,274)
Acquisition of the assets of First Juice	---	---	(270,000)
Net cash provided by (used in) investing activities	(847,307)	(226,324)	1,410,337
Cash flows from financing activities:			
Proceeds of note payable	250,000	250,000	250,000
Checks written in excess of bank balances	367,840	504,398	998,234
Purchases of treasury stock	(971,798)	(1,418,657)	(2,666,288)
Repayment of notes payable	(1,478,521)	(1,152,876)	(3,008,694)
Net cash used in financing activities	(1,832,479)	(1,817,135)	(4,426,748)
Net (decrease) increase in cash and cash equivalents	(1,831,416)	228,083	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	$1,398,523	$858,490	$3,229,939

See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 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, Inc. ("First Juice") and consolidated the operations into the operations of the Company. All significant intercompany accounts and transactions have been eliminated. The financial statements include the results of operations from the acquisition of the assets of First Juice from October 14, 2010 through the end of the period (see Note 3).

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

Revenue Recognition

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

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 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

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

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 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
June 30, 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 six months ended June 30, 2011 and 2010 total advertising costs and promotional discounts and allowances were $7,433,554, $5,363,466 and $3,634,684, respectively. Of these totals, $2,390,002, $1,905,018, and $1,298,476 were classified as advertising expenses and $5,043,552, $3,458,448, and $2,336,208 were considered to be promotional discounts and allowances and were classified as reductions of sales for the year ended December 31, 2010 and the six months ended June 30, 2011 and 2010, 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 six months ended June 30, 2011 and 2010 and for the year ended December 31, 2010, diluted and basic earnings per share were the same, as the effect of dilutive securities options outstanding was not significant.

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

Note 3 – ACQUISITIONS

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

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LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
and December 31, 2010

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

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

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

Note 4 – INTANGIBLE ASSETS

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

	June 30, 2011		June 30, 2010		December 31, 2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Recipes	$ 43,600	$ 43,600	$ 43,600	$ 43,600	$ 43,600	$ 43,600
Customer lists and other customer related intangibles	4,504,200	1,292,997	4,305,200	803,744	4,504,200	1,039,323
Lease acquisition	87,200	83,559	87,200	73,707	87,200	79,941
Customer relationship	985,000	403,586	985,000	321,490	985,000	362,526
Trade names	2,248,000	656,931	1,980,000	517,000	2,248,000	585,267
Formula	438,000	215,350	438,000	171,550	438,000	193,450
	$ 8,306,000	$ 2,696,023	$ 7,839,000	$ 1,931,091	$ 8,306,000	$ 2,304,107

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

2012	$ 780,200
2013	722,217
2014	711,367
2015	711,367
2016	711,367
Thereafter	1,973,459
	$ 5,609,977

Amortization expense during the six months ended June 30, 2011 and 2010 and the year ended December 31, 2010 was $391,916, $351,521 and $724,537, respectively.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
and December 31, 2010

Note 5 – INVESTMENTS

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

June 30, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equities	$211,831	$3,034	$(35,930)	$178,934
Mutual Funds	114,362	2,022	(798)	115,586
Preferred Securities	203,514	---	(5,719)	197,795
Corporate Bonds	670,941	12,251	(3,315)	679,877
Total	$1,200,648	$17,307	$(45,762)	$1,172,193

June 30, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equities	$653,068	$26,400	$(117,892)	$561,576
Mutual Funds	206,961	3,056	(7,853)	202,164
Preferred Securities	272,629	6,650	(64,789)	214,490
Corporate Bonds	1,751,719	89,355	(30,140)	1,810,934
Government Agency Obligations	615,767	8,625	(1,752)	622,640
Total	$3,500,144	$134,086	$(222,426)	$3,411,804

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

Proceeds from the sale of investments were $5,669,158, $532,640 and $1,502,724 during the year ended December 31, 2010 and for the six months ended June 30, 2011 and 2010, respectively.

Gross gains of $451,420, $27,622 and $120,850 and gross losses of $200,940, $29,678 and $66,066 were realized on these sales during the year ended December 31, 2010 and for the six months ended June 30, 2011 and 2010, respectively.

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LIFEWAY FOODS, INC. AND SUBSIDIARIES
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Note 5 – INVESTMENTS - Continued

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

	Less Than 12 Months		12 Months or Greater		Total	
June 30, 2011	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	$ 103,939	$ (4,791)	$ 41,845	$ (31,139)	$ 145,784	$ (35,930)
Mutual Funds	30,350	(541)	22,165	(257)	52,515	(798)
Preferred Securities	—	—	197,795	(5,719)	197,795	(5,719)
Corporate Bonds	148,812	(3,315)	—	—	148,812	(3,315)
	$ 283,101	$ (8,647)	$ 261,805	$ (37,115)	$ 544,906	$ (45,762)

	Less Than 12 Months		12 Months or Greater		Total	
June 30, 2010	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	$ 58,222	$ (10,953)	$ 154,154	$ (106,939)	$ 212,376	$ (117,892)
Mutual Funds	278	(4)	99,486	(7,849)	99,764	(7,853)
Preferred Securities	—	—	193,090	(64,789)	193,090	(64,789)
Corporate Bonds	499,285	(26,989)	181,076	(3,151)	680,361	(30,140)
Government Agency Obligations	—	—	84,775	(1,752)	84,775	(1,752)
	$ 557,785	$ (37,946)				