

LIFEWAY FOODS INC
Form 10-Q
May 13, 2014

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, 2014

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

For the transition period from _____ to _____

Commission File Number: 000-17363

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

Illinois
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

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

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

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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, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
<input type="checkbox"/>			

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 May 9, 2014, 16,346,017 shares of the registrant’s common stock, no par value, were outstanding.

LIFEWAY FOODS, INC.

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1.	Financial Statements.	3
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations.	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	18
Item 4.	Controls and Procedures.	20

PART II – OTHER INFORMATION

Item 1.	Legal Proceedings.	22
Item 1 A.	Risk Factors.	22
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	31
Item 3.	Defaults Upon Senior Securities.	31
Item 4.	Mine Safety Disclosure.	31
Item 5.	Other Information.	31
Item 6.	Exhibits.	31
	Signatures.	32
	Index of Exhibits.	33

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition

March 31, 2014 and 2013 (Unaudited) and December 31, 2013

	March 31, 2014	2013	December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents	\$2,474,708	\$2,739,957	\$3,306,608
Investments	2,790,935	2,062,343	2,516,380
Certificates of deposits in financial institutions	—	250,000	15,373
Inventories	7,355,884	7,080,899	6,899,008
Accounts receivable, net of allowance for doubtful accounts and discounts (\$1,300,000 and \$1,350,000 and \$1,050,000)	10,794,866	11,915,981	10,444,839
Prepaid expenses and other current assets	39,855	92,827	128,323
Other receivables	91,628	5,165	103,272
Deferred income taxes	360,110	295,701	322,071
Refundable income taxes	2,580,323	84,828	1,014,947
Total current assets	26,488,309	24,527,701	24,750,821
Property and equipment, net	21,248,982	14,917,260	20,824,448
Intangible assets			
Goodwill and other non amortizable brand assets	14,068,091	14,068,091	14,068,091
Other intangible assets, net of accumulated amortization of \$4,734,478, \$4,020,598 and \$4,555,559 at March 31, 2014 and 2013 and at December 31, 2013, respectively	3,571,522	4,285,403	3,750,441
Total intangible assets	17,639,613	18,353,494	17,818,532
Other Assets			
Long-term accounts receivable net of current portion	273,000	294,000	280,000
Total assets	\$65,649,904	\$58,092,455	\$63,673,801

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities			
Current maturities of notes payable	\$879,354	\$543,591	\$875,002
Accounts payable	6,958,999	6,465,801	6,723,179
Accrued expenses	2,732,170	1,197,883	1,284,060
Accrued income taxes	—	462,593	—
Total current liabilities	10,570,523	8,669,868	8,882,241

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Notes payable	8,775,587	4,820,160	8,999,012
Deferred income taxes	2,689,167	2,909,134	2,843,426
Total liabilities	22,035,277	16,399,162	20,724,679
Stockholders' equity			
Common stock, no par value; 40,000,000 shares authorized; 17,273,776 shares issued; 16,346,017 shares outstanding at March 31, 2014; 17,273,776 shares issued; 16,346,017 shares outstanding at March 31, 2013 and 16,346,017 shares outstanding at December 31, 2013			
	6,509,267	6,509,267	6,509,267
Paid-in-capital	2,032,516	2,032,516	2,032,516
Treasury stock, at cost	(8,187,682)	(8,187,682)	(8,187,682)
Retained earnings	43,247,392	41,270,416	42,587,214
Accumulated other comprehensive income (loss), net of taxes	13,134	68,776	7,807
Total stockholders' equity	43,614,627	41,693,293	42,949,122
Total liabilities and stockholders' equity	\$65,649,904	\$58,092,455	\$63,673,801

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, 2014 and 2013

	(Unaudited) Three Months Ended March 31,		2013	
	2014		2013	
Sales	\$ 32,061,147		\$ 27,590,622	
Less: discounts and allowances	(2,929,436)		(3,203,591)	
Net sales	29,131,711	29,131,711	24,387,031	24,387,031
Cost of goods sold		21,681,910		15,402,875
Depreciation expense		383,361		394,125
Total cost of goods sold		22,065,271		15,797,000
Gross profit		7,066,440		8,590,031
Selling expenses		3,479,688		2,813,572
General and administrative		2,380,631		1,868,100
Amortization expense		178,919		177,842
Total operating expenses		6,039,238		4,859,514
Income from operations		1,027,202		3,730,517
Other income (expense):				
Interest and dividend income		28,698		15,009
Rental income		500		3,269
Interest expense		(65,569)		(36,299)
Gain (loss) on sale of investments, net reclassified from OCI		4,808		64,335
Loss on disposition of assets		—		—
Other income (expense)		—		—
Total other income (expense)		(31,563)		46,314
Income before provision for income taxes		995,639		3,776,831
Provision for income taxes		335,461		1,411,192
Net income	\$	660,178	\$	2,365,639
Basic and diluted earnings per common share		0.04		0.14
Weighted average number of shares outstanding		16,346,017		16,346,017

COMPREHENSIVE INCOME

Net income	\$ 660,178	\$ 2,365,639
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on investments (net of tax)	8,044	51,535
Less reclassification adjustment for (gains) losses included in net income (net of taxes)	(2,717)	(36,349)
Comprehensive income	\$ 665,505	\$ 2,380,825

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, 2014 and 2013 and For the Year Ended December 31, 2013

	Common Stock, No Par Value		# of Shares of	Treasury Stock	Common Stock	Paid In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
	40,000,000 Shares Authorized	# of Shares								
Balances at December 31, 2012	17,273,776	16,346,017	927,759	\$6,509,267	\$2,032,516	\$(8,187,682)	\$38,904,777	\$53,591	\$39,440,968	
Redemption of stock	—	—	—	—	—	—	—	—	—	
Other comprehensive income (loss): Unrealized gains on securities, net of taxes	—	—	—	—	—	—	—	(45,784)	(45,784)	
Net income for the year ended December 31, 2013	—	—	—	—	—	—	4,990,298	—	4,990,298	
Dividends (\$0.08) per share	—	—	—	—	—	—	(1,307,861)	—	(1,307,861)	
Balances at December 31, 2013	17,273,776	16,346,017	927,759	\$6,509,267	\$2,032,516	\$(8,187,682)	\$42,587,214	\$7,807	\$42,595,021	
Balances at January 1, 2013	17,273,776	16,346,017	927,759	\$6,509,267	\$2,032,516	\$(8,187,682)	\$38,904,777	\$53,591	\$39,440,968	
Redemption of stock	—	—	—	—	—	—	—	—	—	
Other comprehensive	—	—	—	—	—	—	—	—	—	

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income (loss):										
Unrealized gains on securities, net of taxes	—	—	—	—	—	—	—	15,185	15,185	—
Net income for the three months ended March 31, 2013	—	—	—	—	—	—	2,365,639	—	2,365,639	—
Dividends (\$.07) per share	—	—	—	—	—	—	—	—	—	—
Balances at March 31, 2013	17,273,776	16,346,017	927,759	\$6,509,267	\$2,032,516	\$(8,187,682)	\$41,270,416	\$68,776	\$41,270,416	\$68,776
Balances at January 1, 2014	17,273,776	16,346,017	927,759	\$6,509,267	\$2,032,516	\$(8,187,682)	\$42,587,214	\$7,807	\$42,587,214	\$7,807
Redemption of stock	—	—	—	—	—	—	—	—	—	—
Other comprehensive income (loss):										
Unrealized gains on securities, net of taxes	—	—	—	—	—	—	—	5,327	5,327	—
Net income for the three months ended March 31, 2014	—	—	—	—	—	—	—	—	—	—