LIFEWAY FOODS INC
Form 10-Q
August 15, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2012

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

For the transition period from __________ to __________

Commission File Number: 000-17363

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

Illinois	36-3442829
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of August 10, 2012, the issuer had 16,371,217 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, 2012 and 2011 (Unaudited) and December 31, 2011

	(Unaudited) June 30, 2012	(Unaudited) June 30, 2011	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	$ 2,000,325	$ 1,398,523	$ 1,115,150
Investments	1,867,234	1,172,193	1,695,044
Certificates of deposits in financial institutions	300,000	300,000	300,000
Inventories	5,426,715	5,608,151	4,954,475
Accounts receivable, net of allowance for doubtful accounts and discounts	9,486,141	8,891,068	7,950,276
Prepaid expenses and other current assets	96,860	199,866	79,630
Other receivables	104,009	9,825	224,204
Deferred income taxes	512,260	394,376	338,690
Refundable income taxes	0	0	41,316
Total current assets	19,793,544	17,974,002	16,698,785
Property and equipment, net	14,865,789	15,237,279	15,198,822
Intangible assets			
Goodwill and other non amortizable brand assets	14,068,091	14,068,091	14,068,091
Other intangible assets, net of accumulated amortization of $3,465,349 and $2,696,023 at June 30, 2012 and 2011 and 3,087,940 at December 31, 2011, respectively	4,840,652	5,609,977	5,218,060
Total intangible assets	18,908,743	19,678,068	19,286,151
Other Assets			
Long-term accounts receivable net of current portion	191,590	0	289,550
Total assets	$ 53,759,666	$ 52,889,349	$ 51,473,308
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Checks written in excess of bank balances	$ 711,597	$ 1,709,050	$ 592,040
Current maturities of notes payable	540,478	1,892,042	1,540,716
Accounts payable	4,769,851	4,174,835	4,386,239
Accrued expenses	593,412	552,058	553,725
Accrued income taxes	1,639,515	378,482	0
Total current liabilities	8,254,853	8,706,467	7,072,720

Notes payable	5,228,395	5,957,795	5,539,836
Deferred income taxes	3,240,826	3,329,537	3,503,595
Total liabilities	16,724,074	17,993,799	16,116,151
Stockholders' equity			
Common stock, no par value; 20,000,000 shares authorized; 17,273,776 shares issued; 16,372,217 shares outstanding at June 30, 2012; 17,273,776 shares issued; 16,430,809 shares outstanding at June 30, 2011; 17,273,776 shares issued; 16,409,317 shares outstanding at December 31, 2011	6,509,267	6,509,267	6,509,267
Paid-in-capital	2,032,516	2,032,516	2,032,516
Treasury stock, at cost	(7,947,418)	(7,397,344)	(7,606,974)
Retained earnings	36,429,095	33,767,188	34,431,296
Accumulated other comprehensive income (loss), net of taxes	12,132	(16,077)	(8,948)
Total stockholders' equity	37,035,592	34,895,550	35,357,157
Total liabilities and stockholders' equity	$ 53,759,666	$ 52,889,349	$ 51,473,308

See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income
For the Three and Six Months Ended June 30, 2012 and 2011 (unaudited)
and for the Year Ended December 31, 2011

	(Unaudited) Three Months Ended June 30, 2012	(Unaudited) Three Months Ended June 30, 2011	(Unaudited) Six Months Ended June 30, 2012	(Unaudited) Six Months Ended June 30, 2011
Sales	$ 22,713,958	$ 19,913,003	$ 44,259,854	$ 38,960,269
Less: discounts and allowances	(2,160,578)	(1,715,085)	(4,309,276)	(3,458,448)
Net Sales	20,553,380	18,197,918	39,950,578	35,501,821
Cost of goods sold	12,102,841	12,306,764	24,341,182	21,711,256
Depreciation expense	413,109	390,694	812,154	767,207
Total cost of goods sold	12,515,950	12,697,458	25,153,336	22,478,463
Gross profit	8,037,430	5,500,460	14,797,242	13,023,358
Selling expenses	2,622,275	2,897,118	5,326,515	5,248,157
General and administrative	2,099,699	1,707,171	4,094,035	3,417,449
Amortization expense	188,705	195,957	377,409	391,916
Total Operating Expenses	4,910,679	4,800,246	9,797,959	9,057,522
Income from operations	3,126,751	700,214	4,999,283	3,965,836
Other income (expense):				
Interest and dividend income	24,478	17,094	36,049	34,687
Rental income	3,018	650	6,017	650
Interest expense	(43,918)	(72,298)	(94,103)	(134,428)
Impairment of investments	0	0	0	0
Gain (loss) on sale of investments, net	4,406	541	22,390	(2,056)
Total other income (expense)	(12,016)	(54,013)	(29,647)	(101,147)
Income before provision for income taxes	3,114,735	646,201	4,969,636	3,864,689
Provision for income taxes	1,065,607	380,659	1,825,520	1,673,376
Net income	$ 2,049,128	$ 265,542	3,144,116	$ 2,191,313
Basic and diluted earnings per common share	0.13	0.02	0.19	0.13
Weighted average number of shares outstanding	16,376,601	16,434,314	16,389,674	16,461,981

COMPREHENSIVE INCOME

Net income	$	2,049,128	$	265,542	3,144,116	$	2,191,313
Other comprehensive income (loss), net of tax:							
Unrealized gains on investments (net of tax)		(15,593)		10,404	33,730		25,855
Less reclassification adjustment for (gains) losses included in net income (net of taxes)		(2,489)		(305)	(12,650)		1,162
Comprehensive income	$	2,031,046	$	275,641	3,165,196	$	2,218,330

See accompanying notes to financial statements

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

	Common Stock, No Par Value 20,000,000 Shares Authorized		# of Shares of					Accumulated Other	
	# of Shares Issued	# of Shares Outstanding	Treasury Stock	Common Stock	Paid In Capital	Treasury Stock	Retained Earnings	Comprehensive Income (Loss), Net of Tax	
Balances at December 31, 2010	17,273,776	16,536,657	737,119	$ 6,509,267	$ 2,032,516	$ (6,425,546)	$ 31,575,875	$ (43,094)	$ 3
Redemption of stock	0	(127,340)	127,340	0	0	(1,181,428)	0	0	(
Issuance of treasury stock for compensation	0	0	0	0	0	0	0	0	
Other comprehensive income (loss): Unrealized gains on securities, net of taxes	0	0	0	0	0	0	0	34,146	
Net income for the year ended December 31, 2011	0	0	0	0	0	0	2,855,421	0	
Balances at December 31, 2011	17,273,776	16,409,317	864,459	$ 6,509,267	$ 2,032,516	$ (7,606,974)	$ 34,431,296	$ (8,948)	$ 3
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)	$ 3
Redemption of stock	0	(105,848)	105,848	0	0	(971,798)	0	0	

Other comprehensive income (loss): Unrealized gains on securities, net of taxes	0	0	0	0	0	0	0	27,017	
Net income for the six months ended June 30, 2011	0	0	0	0	0	0	2,191,313	0	
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)	$
Balances at January 1, 2012	17,273,776	16,409,317	864,459	$ 6,509,267	$ 2,032,516	$ (7,606,974)	$ 34,431,296	$ (8,948)	$
Redemption of stock	0	(37,100)	37,100	0	0	(340,444)	0	0	
Other comprehensive income (loss): Unrealized gains on securities, net of taxes	0	0	0	0	0	0	0	21,080	
Net income for the six months ended June 30, 2012	0	0	0	0	0	0	3,144,116	0	
Dividends ($0.07 per share)	0	0	0	0	0	0	(1,146,317)	0	
Balances at June 30, 2012	17,273,776	16,372,217	901,559	$ 6,509,267	$ 2,032,516	$ (7,947,418)	$ 36,429,095	$ 12,132	$

See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2012 and 2011 (Unaudited)
and for the Year Ended December 31, 2011

	(Unaudited) June 30, 2012	(Unaudited) June 30, 2011
Cash flows from operating activities:		
Net income	$3,144,116	$2,191,313
Adjustments to reconcile net income to net cash flows from operating activities, net of acquisition:		
Depreciation and amortization	1,189,563	1,159,123
Loss (gain) on sale of investments, net	(22,390)	2,056
Loss on disposition of equipment	0	0
Impairment of investments	0	0
Deferred income taxes	(480,311)	(156,040)
Bad Debt Expense	172,303	20,000
(Increase) decrease in operating assets:		
Accounts receivable	(1,610,208)	(2,117,792)
Other receivables	120,195	94,855
Inventories	(472,240)	(1,622,777)
Refundable income taxes	41,316	906,748
Prepaid expenses and other current assets	(17,230)	(41,551)
Increase (decrease) in operating liabilities:		
Accounts payable	383,612	(8,646)
Accrued expenses	39,687	42,599
Income taxes payable	1,639,515	378,482
Net cash provided by operating activities	4,127,928	848,370
Cash flows from investing activities:		
Purchases of investments	(743,675)	(582,697)
Proceeds from sale of investments	658,233	532,640
Investments in certificates of deposits	0	(50,000)
Proceeds from redemption of certificates of deposit	0	0
Purchases of property and equipment	(478,428)	(747,250)
Net cash used in investing activities	(563,870)	(847,307)
Cash flows from financing activities:		
Proceeds of note payable	0	250,000
Checks written in excess of bank balances	119,557	367,840
Purchases of treasury stock	(340,444)	(971,798)
Dividends Paid	(1,146,317)	0
Repayment of notes payable	(1,311,679)	(1,478,521)
Net cash used in financing activities	(2,678,883)	(1,832,479)
Net (decrease) increase in cash and cash equivalents	885,175	(1,831,416)
Cash and cash equivalents at the beginning of the period	1,115,150	3,229,939

Cash and cash equivalents at the end of the period	$2,000,325	$1,398,523

See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2012 and 2011 (Unaudited)
and for the Year Ended December 31, 2011

Note 1 – NATURE OF BUSINESS

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

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Principles of consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Helios Nutrition, Ltd., Pride of Main Street, L.L.C., Starfruit, L.L.C., Fresh Made, Inc. and Starfruit Franchisor, L.L.C. All significant intercompany accounts and transactions have been eliminated.

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

Customer Concentration

Sales are predominately to companies in the retail food industry, located within the United States of America. Two major customers accounted for approximately 31 percent and 29 percent of gross sales for the six months ended June 30, 2012 and 2011, respectively. These customers accounted for approximately 30 percent, 27 percent and 20 percent of accounts receivable as of June 30, 2012, June 30, 2011 and December 31, 2011, respectively.

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2012 and 2011 (Unaudited)
and for the Year Ended December 31, 2011

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

Accounts receivable
Credit terms are extended to customers in the normal course of business. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral. Balances expected to be paid beyond one year are classified as long-term.

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

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

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

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

Category	Years

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

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2012 and 2011 (Unaudited)
and for the Year Ended December 31, 2011

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Intangible assets acquired in business combinations

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

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

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

Intangible assets are being amortized over the following useful lives:

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

Income taxes

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

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

The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The only periods subject to examination for the Company's federal return are the 2009 and 2010 tax years and 2011 when filed. The Company believes that its income tax filing positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded.

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2012 and 2011 (Unaudited)
and for the Year Ended December 31, 2011

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Treasury stock
Treasury stock is recorded using the cost method.

Advertising and promotional costs
The Company expenses advertising costs as incurred. For the six months ended June 30, 2012 and 2011 total advertising expenses were $1,320,326 and $1,905,018 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, 2012 and 2011, diluted and basic earnings per share were the same, as the effect of dilutive securities options outstanding was not significant.

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

Note 3 – INTANGIBLE ASSETS

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

	June 30, 2012		June 30, 2011		December 31, 2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Recipes	$ 43,600	$ 43,600	$ 43,600	$ 43,600	$ 43,600	$ 43,600
Customer lists and other customer related intangibles	4,504,200	1,786,212	4,504,200	1,292,997	4,504,200	1,546,671
Lease acquisition	87,200	87,200	87,200	83,559	87,200	87,200
Customer relationship	985,000	485,652	985,000	403,586	985,000	444,618
Trade names	2,248,000	803,535	2,248,000	656,931	2,248,000	728,601
Formula	438,000	259,150	438,000	215,350	438,000	237,250
	$ 8,306,000	$ 3,465,349	$ 8,306,000	$ 2,696,023	$ 8,306,000	$ 3,087,940

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

2013	$ 733,000
2014	711,000
2015	711,000
2016	711,000
2017	671,000

Thereafter		1,302,000
	$	4,839,000

Amortization expense during the six months ended June 30, 2012 and 2011 was $377,409 and $391,916, respectively.

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2012 and 2011 (Unaudited)
and for the Year Ended December 31, 2011

Note 4 – INVESTMENTS

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

June 30, 2012	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equities	$ 642,977	$ 74,414	$ (10,644)	$ 706,747
Mutual Funds	56,872	2,097	(237)	58,732
Preferred Securities	0	0	0	0
Corporate Bonds	1,118,173	9,483	(25,901)	1,101,755
Total	$ 1,818,022	$ 85,994	$ (36,782)	$ 1,867,234

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	0	(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

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

Proceeds from the sale of investments were $658,233 and $532,640 for the six months ended June 30, 2012 and 2011, respectively.

Gross gains of $37,405 and $27,622 and gross losses of $15,014 and $29,678 were realized on these sales during the six months ended June 30, 2012 and 2011 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 June 30, 2012 and 2011 December 31, 2011:

	Less Than 12 Months	12 Months or Greater	Total
June 30, 2012	Fair Value	Fair Value	Fair Value

		Unrealized Losses		Unrealized Losses		Unrealized Losses
Equities	$ 57,963	$ (6,972)	$ 76,496	$ (3,673)	$ 134,459	$ (10,645)
Mutual Funds	0	0	2,952	(237)	2,952	(237)
Preferred Securities	0	0	0	0	0	0
Corporate Bonds	547,884	(22,864)	49,090	(3,037)	596,974	(25,901)
	$ 605,847	$ (29,836)	$ 128,538	$ (6,647)	$ 734,385	$ (36,783)

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2012 and 2011 (Unaudited)
and for the Year Ended December 31, 2011