

LIFEWAY FOODS INC
Form 10-Q/A
August 15, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q/A
AMENDMENT NO. 1

(Mark
One)

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

For the quarterly period ended: March 31, 2016

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 (I.R.S. Employer
Incorporation or Organization) 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
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 April 18, 2016, 16,158,858 shares of the registrant's common stock, no par value, were outstanding.

LIFEWAY FOODS, INC.

EXPLANATORY NOTE

On August 12, 2016, the Audit Committee of the Board of Directors (the "Board") of Lifeway Foods, Inc. (the "Company"), upon the recommendation of management, determined that the consolidated financial statements as of and for the three months ended March 31, 2016 presented in Lifeway's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016 ("First Quarter Form 10-Q"), filed on May 10, 2016, should be restated to correct errors that resulted in misstatements of inventories, accounts payable, accrued expenses, costs of goods sold, selling expenses and general and administrative expense. The corrections of the errors have the effect of increasing pretax income by \$502, net income by \$307 and increasing basic and common diluted earnings per share by \$0.02 for the three months ended March 31, 2016. A detailed description of the restatement is presented in Note 1, under the caption Restatement of previously issued consolidated financial statements.

This First Quarter Form 10-Q/A reflects changes to the consolidated financial statements and Note 5, Inventories and Note 7 Accrued Expenses. In addition, in connection with the restatement discussed above, this First Quarter Form 10-Q/A reflects the revision of management's discussion and analysis of financial condition and results of operations in Item 2 of Part I; the revision of disclosures regarding controls and procedures in Item 4 of Part I; the revision of risk factors in Item 1A of Part II; and the revision of the exhibits listed in Item 6 of Part II. For ease of reference, the First Quarter Form 10-Q is restated herein in its entirety except as set forth above. The First Quarter Form 10-Q continues to speak as of the date of the First Quarter Form 10-Q and has not been updated for events or information subsequent to the date of filing of the original First Quarter Form 10-Q except as set forth above. As a result, this Quarterly Report on Form 10-Q/A contains forward-looking information which has not been updated for events subsequent to the date of the original filing. Accordingly, this First Quarter Form 10-Q/A should be read in conjunction with the Company's other filings made with the Securities and Exchange Commission ("SEC").

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ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2016 and December 31, 2015

(In thousands)

	March 31, 2016 (Unaudited) (Restated)	December 31, 2015
Current assets		
Cash and cash equivalents	\$ 3,786	\$ 5,646
Investments, at fair value	2,484	2,216
Certificates of deposits in financial institutions	150	513
Inventories	9,001	7,664
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of \$1,600 and \$1,800 at March 31, 2016 and December 31, 2015 respectively	10,187	9,604
Prepaid expenses and other current assets	287	201
Deferred income taxes	532	556
Refundable income taxes	682	449
Total current assets	27,109	26,849
Property and equipment, net	21,080	21,375
Intangible assets		
Goodwill & indefinite-lived intangibles	14,068	14,068
Other intangible assets, net	2,166	2,344
Total intangible assets	16,234	16,412
Other Assets		
Long-term accounts receivable, net of current portion	270	282
Total assets	\$ 64,693	\$ 64,918
Current liabilities		
Current maturities of notes payable	\$ 840	\$ 840
Accounts payable	7,447	8,393
Accrued expenses	1,949	1,538
Accrued income taxes	—	52
Total current liabilities	10,236	10,823
Notes payable	6,909	7,119
Deferred income taxes	1,719	1,719
Total liabilities	18,864	19,661
Stockholders' equity		
Common stock, no par value; 40,000 shares authorized; 17,274, shares issued; 16,171 and 16,210 shares outstanding at March 31, 2016 and December 31, 2015 respectively	6,509	6,509

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Paid-in-capital	2,054	2,033
Treasury stock, at cost	(10,170)	(9,730)
Retained earnings	47,471	46,516
Accumulated other comprehensive loss, net of taxes	(35)	(71)
Total stockholders' equity	45,829	45,257
Total liabilities and stockholders' equity	\$ 64,693	\$ 64,918

See accompanying notes to consolidated financial statements

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LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Income and Comprehensive Income
For the three months ended March 31, 2016 and 2015
(Unaudited)
(In thousands, except per share data)

	2016 (Restated)	2015
Gross Sales	\$ 37,030	\$ 33,103
Less: discounts and allowances	(4,460)	(3,481)
Net sales	32,570	29,622
Cost of goods sold	22,720	20,648
Depreciation expense	631	591
Total cost of goods sold	23,351	21,239
Gross profit	9,219	8,383
Selling expenses	2,964	3,302
General and administrative	4,465	3,492
Amortization expense	176	179
Total operating expenses	7,605	6,973
Income from operations	1,614	1,410
Other income (expense):		
Interest expense	(58)	(65)
Loss on sale of investments, net reclassified from OCI	(12)	(5)
Gain on sale of equipment	—	36
Impairment of investments	—	(180)
Other income (expense), net	17	108
Total other income (expense)	(53)	(106)
Income before provision for income taxes	1,561	1,304
Provision for income taxes	606	650
Net income	\$ 955	\$ 654
Basic and diluted earnings per common share	\$ 0.06	\$ 0.04
Weighted average number of shares outstanding	16,189	16,346
COMPREHENSIVE INCOME		
Net income	\$ 955	\$ 654
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on investments, net of \$(27) and \$23 of taxes	43	(34)
Reclassifications to earnings:		
Other than temporary impairment of investments, net of \$(76) of taxes	—	104
Realized gains (losses) on investments, net of \$5 and \$2 of taxes	(7)	(3)
Comprehensive income	\$ 991	