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: June 30, 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 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 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 ☐

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 August 8, 2016, 16,140,633 shares of the registrant's common stock, no par value, were outstanding.

EXPLANATORY NOTE

On November 4, 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 (the "Previously Issued Financial Statements") presented in the Company's reports for the annual period ended December 31, 2015, and the reports of the independent registered public accounting firm thereon; the related quarterly periods for the annual period ended December 31, 2015; and the quarterly periods ended March 31 and June 30, 2016 as set forth in the Company's previous filings with the Securities and Exchange Commission (the "SEC") (the "Revised Periods") should no longer be relied upon as a result of the following classification errors:

- During fiscal year 2015 and continuing through the first two quarters of 2016 certain indirect manufacturing overhead costs were classified as an element of General and Administrative (G&A) expenses in our Statements of Income and Comprehensive Income. These indirect manufacturing overhead costs are more appropriately classified as an element of Cost of Goods Sold.

A description of the restatement is presented in Note 1, under the caption Restatements of prior period financial statements. The classification errors described above have no impact on the Company's previously-reported net sales, income from operations, net income, or basic and diluted earnings per common share presented in its Consolidated Statements of Income and Comprehensive Income, nor does it have a material effect on the Company's previously-reported Consolidated Balance Sheets, Consolidated Statements of Cash Flows, or Consolidated Statements of Changes in Stockholders' Equity

This Amendment No. 1 on Form 10-Q/A (“Amendment”) amends the Company’s Form 10-Q (the “Originally Filed 10-Q”) filed with the SEC on August 17, 2016, solely as described herein. In addition to this Explanatory Note, this Amendment reflects changes to the Consolidated Balance Sheets, Consolidated Statements of Income and Comprehensive Income and Consolidated Statements of Cash Flows and the following notes to the consolidated financial statements: Note 1, Basis of presentation and restatements of prior periods; Note 4, Investments; and Note 11, Fair value measurements. In addition, in connection with the restatement this Form 10-Q/A reflects the revisions to Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I. Otherwise, the Originally Filed 10-Q is restated herein in its entirety and no other information in the Originally Filed 10-Q is amended hereby. Disclosures and forward-looking information in this Amendment continue to speak as of the date of the Originally Filed Form 10-Q, and do not reflect events occurring after the filing of the Originally Filed Form 10-Q. Accordingly, this Amendment should be read in conjunction with our other filings made with the SEC after the filing of the Originally Filed Form 10-Q, including any amendments to those filings.

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ITEM 1. FINANCIAL STATEMENTS.

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2016 and December 31, 2015
(In thousands)

	June 30, 2016 (Unaudited) (Restated)	December 31, 2015
Current assets		
Cash and cash equivalents	$ 6,064	$ 5,646
Investments, at fair value	1,638	2,091
Certificates of deposits in financial institutions	–	513
Inventories	9,312	7,664
Accounts receivable, net of allowance for doubtful accounts and discounts & allowances of $1,700 and $1,800 at June 30, 2016 and December 31, 2015 respectively	10,388	9,886
Prepaid expenses and other current assets	650	201
Deferred income taxes	509	556
Refundable income taxes	519	449
Total current assets	**29,080**	**27,006**
Property and equipment, net	**21,301**	**21,375**
Intangible assets		
Goodwill & indefinite-lived intangibles	14,068	14,068
Other intangible assets, net	1,991	2,344
Total intangible assets	**16,059**	**16,412**
Other Assets	125	125
Total assets	**$ 66,565**	**$ 64,918**
Current liabilities		
Current maturities of notes payable	$ 840	$ 840
Accounts payable	6,681	8,393
Accrued expenses	2,302	1,538
Accrued income taxes	628	52
Total current liabilities	**10,451**	**10,823**
Notes payable	**6,699**	**7,119**
Deferred income taxes	**1,719**	**1,719**
Total liabilities	**18,869**	**19,661**
Stockholders' equity		
Common stock, no par value; 40,000 shares authorized; 17,274, shares issued; 16,141 and 16,210 shares outstanding at June 30, 2016 and December 31, 2015 respectively	6,509	6,509
Paid-in-capital	2,075	2,033
Treasury stock, at cost	(10,468)	(9,730)
Retained earnings	49,578	46,516
Accumulated other comprehensive income (loss), net of taxes	2	(71)
Total stockholders' equity	**47,696**	**45,257**
Total liabilities and stockholders' equity	**$ 66,565**	**$ 64,918**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Income and Comprehensive Income
For the Three Months and Six Months ended June 30, 2016 and 2015
(Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30, 2016 Restated	Three Months Ended June 30, 2015 Restated	Six Months Ended June 30, 2016 Restated	Six Months Ended June 30, 2015 Restated
Net sales	**$ 31,131**	**$ 29,821**	**$ 63,701**	**$ 59,443**
Cost of goods sold	20,763	22,760	44,002	43,866
Depreciation expense	633	604	1,264	1,195
Total cost of goods sold	21,396	23,364	45,266	45,061
Gross profit	**9,735**	**6,457**	**18,435**	**14,382**
Selling expenses	3,463	2,618	6,427	5,920
General and administrative	3,046	3,611	6,992	6,645
Amortization expense	177	179	353	358
Total operating expenses	**6,686**	**6,408**	**13,772**	**12,923**
Income from operations	**3,049**	**49**	**4,663**	**1,459**
Other income (expense):				
Interest expense	(47)	(59)	(105)	(124)
Loss on sale of investments, net reclassified from OCI	(15)	(17)	(27)	(22)
Impairment of investments	–	–	–	(180)
(Loss) / Gain on sale of property and equipment	(151)	207	(151)	243
Other income (expense), net	60	38	77	147
Total other income (expense)	**(153)**	**169**	**(206)**	**64**
Income before provision for income taxes	**2,896**	**218**	**4,457**	**1,523**
Provision for income taxes	789	**120**	1,395	**770**
Net income	**$ 2,107**	**$ 98**	**$ 3,062**	**$ 753**
Basic and diluted earnings per common share	**$ 0.13**	**$ 0.01**	**$ 0.19**	**$ 0.05**
Weighted average number of shares outstanding	**16,149**	**16,346**	**16,169**	**16,346**
COMPREHENSIVE INCOME				
Net income	**$ 2,107**	**$ 98**	**$ 3,062**	**$ 753**
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investments, net of taxes	12	(31)	56	(65)
Reclassifications to earnings:				
Other than temporary impairment of investments, net of taxes	–	4	–	108

Realized (gains) losses on investments, net of taxes	24	**18**	17	**15**
Comprehensive income	$ 2,143	**$ 89**	$ 3,135	**$ 811**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Six Months Ended June 30, 2016 and 2015
(Unaudited)
(In thousands)

	Common Stock							
	Issued		In treasury					
	Shares	$	Shares	$	Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Stockholders' Equity
Balances at January 1, 2015	**17,274**	**$ 6,509**	**(928)**	**$ (8,188)**	**$ 2,033**	**$ 44,544**	**$ (198)**	**$ 44,700**
Other comprehensive income	–	–	–	–	–	–	58	58
Net income for the six months ended June 30, 2015	–	–	–	–	–	753	–	753
Balances at June 30, 2015	**17,274**	**$ 6,509**	**(928)**	**$ (8,188)**	**$ 2,033**	**$ 45,297**	**$ (140)**	**$ 45,511**
Balances at January 1, 2016	**17,274**	**$ 6,509**	**(1,064)**	**$ (9,730)**	**$ 2,033**	**$ 46,516**	**$ (71)**	**$ 45,257**
Other comprehensive income	–	–	–	–	–	–	73	73
Treasury stock purchased	–	–	(69)	(738)	–	–	–	(738)
Stock based compensation	–	–	–	–	42	–	–	42
Net income for the six months ended June 30, 2016	–	–	–	–	–	3,062	–	3,062
Balances at June 30, 2016	**17,274**	**$ 6,509**	**(1,133)**	**$ (10,468)**	**$ 2,075**	**$ 49,578**	**$ 2**	**$ 47,696**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2016 and 2015
(Unaudited)
(In thousands)

	2016 Restated	2015
Cash flows from operating activities:		
Net income	$ 3,062	$ 753
Adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	1,617	1,553
Loss on sale of investments, net	27	22
Impairment of investments	–	180
Deferred income taxes	–	(352)
Stock based compensation	42	–
Loss / (Gain) on sale of property and equipment	151	(243)
(Increase) decrease in operating assets:		
Accounts receivable	(502)	(167)
Inventories	(1,649)	(476)
Refundable income taxes	(70)	399
Prepaid expenses and other current assets	(448)	244
Increase (decrease) in operating liabilities:		
Accounts payable	(1,710)	138
Accrued expenses	765	2,637
Income taxes payable	576	15
Net cash provided by operating activities	**1,861**	**4,703**
Cash flows from investing activities:		
Purchases of investments	(479)	(1,287)
Proceeds from sale of investments	1,024	1,134
Redemption of certificates of deposits	513	100
Investments in certificates of deposit	–	(385)
Purchases of property and equipment	(1,382)	(1,377)
Proceeds from sale of equipment	39	342
Net cash used in investing activities	**(285)**	**(1,473)**
Cash flows from financing activities:		
Purchase of treasury stock	(738)	–
Repayment of notes payable	(420)	(617)
Net cash used in financing activities	**(1,158)**	**(617)**
Net increase in cash and cash equivalents	**418**	**2,613**
Cash and cash equivalents at the beginning of the period	5,646	3,260
Cash and cash equivalents at the end of the period	**$ 6,064**	**$ 5,873**
Supplemental cash flow information:		
Cash paid for income taxes, net of refunds	**$ 886**	**$ 883**
Cash paid for interest	**$ 105**	**$ 124**

See accompanying notes to consolidated financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2016 and December 31, 2015
(Unaudited)
(In thousands, except per share data)

Note 1 – Basis of Presentation

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information, and do not include all of the information and disclosures required for complete, audited financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included. For further information, refer to the consolidated financial statements and disclosures included in the consolidated financial statements included in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2015, as amended. Certain amounts in prior-year financial statements were reclassified to conform to the current-year presentation. The results for the period are not necessarily indicative of the results to be expected for other interim periods or the full year.

New presentation format. In prior periods, the Company presented gross sales, discounts and promotional allowances and net sales as distinct financial statement captions in our statements of income and comprehensive income. During the second quarter of 2016, the Company concluded that it was appropriate to simply present net sales. All prior periods have been conformed to the new presentation.

Principles of consolidation

Our Consolidated Financial Statements include the accounts of Lifeway Foods, Inc. and all of its wholly owned subsidiaries (collectively "Lifeway" or the "Company"). All significant intercompany accounts and transactions have been eliminated.

Restatements of prior period financial statements

Matters affecting the statements of income and comprehensive income

During fiscal year 2015 and continuing through the first two quarters of 2016 certain indirect manufacturing overhead costs were classified as an element of General and Administrative (G&A) expenses in our Statements of Income and Comprehensive Income. These indirect manufacturing overhead costs are more appropriately classified as an element of Cost of Goods Sold. Accordingly, the classification errors have been restated in the Consolidated Statements of Income and Comprehensive Income.

The classification errors have no impact on the Company's previously-reported net sales, income from operations, net income, or basic and diluted earnings per common share presented in its Consolidated Statements of Income and Comprehensive Income, nor does it have any effect on the Company's previously-reported Consolidated Balance Sheets, Consolidated Statements of Cash Flows, or Consolidated Statements of Changes in Stockholders' Equity.

Matters affecting the balance sheets and statements of cash flows

The Company also determined that certain operating assets at June 30, 2016 were not properly classified in our previously issued Consolidated Balance Sheets. These classification errors did not have a material impact on the Company's previously issued Consolidated Balance Sheets and Consolidated Statements of Cash Flows. To provide a higher degree of transparency and enhanced comparability between periods, these classification errors have been revised. Certain trade receivables at June 30, 2016 were reclassified from non-current assets to current assets to reflect the expected settlement of those receivables within one year; and certain investments that do not meet the definition of available-for-sale securities were reclassified from investments at fair value to other assets.

These classification errors arose from the previously disclosed material weaknesses in our financial reporting process including the manual nature of our financial statement consolidation process.

Note 2 – Significant Accounting Policies

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated 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 reserve for promotional allowances, the fair value of investment securities, the valuation of goodwill and intangible assets, and deferred income taxes.

Revenue Recognition

The Company records sales when 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 costs are included in cost of sales.

The Company routinely offers sales allowances and discounts to our customers and consumers. These programs include rebates, in-store display and demo allowances, allowances for non-salable product, coupons and other trade promotional activities. These allowances are considered reductions in the price of our products and thus are recorded as reductions to gross sales. Some of these incentives are recorded by estimating incentive costs based on our historical experience and expected levels of performance of the trade promotion. We maintain a reserve for the estimated allowances incurred but unpaid. Differences between estimated and actual allowances are normally insignificant and are recognized in income in the period such differences are determined. Product returns have historically not been material.

Bulk cream is a by-product of the Company's fluid milk manufacturing process. The Company does not use bulk cream in any of its end products, but rather disposes of it through sales to other companies. Bulk cream by-product sales are included in net sales.

Advertising and promotional costs

The Company expenses advertising costs as incurred. For the six months ended June 30, 2016 and 2015 total advertising expenses were $2,753 and $2,821 respectively. For the three months ended June 30, 2016 and 2015 total advertising expenses were $1,811 and $910 respectively.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued new guidance regarding certain aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance will be effective for fiscal years beginning on or after December 15, 2016 and interim periods within those years. Early adoption of the guidance is permitted. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

In February 2016, the FASB issued new guidance regarding leases. The guidance requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize on the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those years. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

In January, 2016, the FASB issued new guidance regarding the recognition and measurement of financial assets and liabilities. The new guidance modifies how entities measure equity investments and present changes in the fair value of certain financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted under the equity method at fair value and recognize any changes in fair value in net income unless certain conditions exist. The new guidance will be effective for fiscal years beginning on or after December 15, 2017 and interim periods within those years. Other than for recognition and measurement, early adoption of the guidance is permitted. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

In November 2015, the FASB issued new guidance regarding the balance sheet classification of deferred income taxes. This new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. Previous guidance required deferred tax assets and liabilities to be separated into current and noncurrent amounts on the balance sheet. The guidance is effective for fiscal years beginning on or after December 15, 2016, and interim periods within those years. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements.

In July 2015, the FASB issued new accounting guidance for measuring inventory. The core principal of the guidance is that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance does not apply to inventory that is being measured using the Last-In, First-Out (LIFO) or the retail inventory method. The guidance is effective for financial statements issued for annual and interim periods beginning after December 15, 2016 on a prospective basis. Early adoption is permitted. Management is currently evaluating the impact this will have on the consolidated financial statements.

In May 2014, the FASB issued new guidance regarding revenue recognition. Additional revenue recognition guidance clarifications have been issued subsequent to May 2014. Collectively the new revenue recognition guidance supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific requirements. The new guidance establishes a five-step revenue recognition process in which an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. The Company is required to adopt the new guidance not later than January 1, 2018. Management is currently evaluating the impact that the new guidance will have on the consolidated financial statements and the method of retrospective application, either full or modified.

Note 3 – Intangible Assets

Goodwill & indefinite-lived intangible assets consists of the following:

	June 30, 2016	December 31, 2015
Goodwill	$ 10,368	$ 10,368
Brand names	3,700	3,700
Goodwill & indefinite lived intangible assets	$ 14,068	$ 14,068

Other intangible assets, net consists of the following:

	June 30, 2016	December 31, 2015
Recipes	$ 44	$ 44
Customer lists and other customer related intangibles	4,529	4,529
Customer relationship	985	985
Trade names	2,248	2,248
Formula	438	438
	8,244	8,244
Accumulated amortization	(6,253)	(5,900)
Intangible assets, net	$ 1,991	$ 2,344

Note 4 – Investments

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

June 30, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Common stocks & ETF's	$ 654	$ 59	$ (66)	$ 647
Mutual Funds	18	1	—	19
Preferred Securities	97	9	—	106
Corporate Bonds	866	39	(39)	866
Total	$ 1,635	$ 108	$ (105)	$ 1,638

December 31, 2015	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Common stocks & ETF's	$ 690	$ 17	$ (94)	$ 613
Mutual Funds	27	—	(1)	26

Preferred Securities	98	6	—	104
Corporate Bonds	1,393	43	(88)	1,348
Total	$ 2,208	$ 66	$ (183)	$ 2,091

Gross gains of $65 and $50 and gross losses of $92 and $72 were realized on these sales during the six months ended June 30, 2016 and 2015, respectively. Gross gains of $63 and $44 and gross losses of $78 and $61 were realized on these sales during the three months ended June 30, 2016 and 2015 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, 2016 and December 31, 2015:

	Less Than 12 Months		12 Months or Greater		Total	
June 30, 2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Common stocks & ETF's	$ 51	$ (6)	$ 274	$ (60)	$ 325	$ (66)
Mutual Funds	—	—	—	—	—	—
Preferred Securities	—	—	—	—	—	—
Corporate Bonds	249	(1)	380	(38)	629	(39)
	$ 300	$ (7)	$ 654	$ (98)	$ 954	$ (105)

	Less Than 12 Months		12 Months or Greater		Total	
December 31, 2015	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Common stocks & ETF's	$ 225	$ (72)	$ 152	$ (22)	$ 377	$ (94)
Mutual Funds	26	(1)	—	—	26	(1)
Preferred Securities	—	—	—	—	—	—
Corporate Bonds	370	(32)	479	(56)	849	(88)
	$ 621	$ (105)	$ 631	$ (78)	$ 1,252	$ (183)

The Company's investments in equity securities, mutual funds, preferred securities, and corporate bonds consist of investments in common stock, preferred stock, structured notes and other debt securities of companies in various industries. The Company recorded other-than-temporary impairment losses related to certain structured notes of $0 and $180 during the six months ended June 30, 2016 and 2015 respectively. The structured notes allow the issuer to settle at an amount less than par in certain circumstances. In reaching a conclusion to record these other-than-temporary impairment losses, the Company evaluated the near-term prospects of the issuers and determined it was probable the issuers would have the ability to settle the bonds for an amount less than par value at maturity.

Note 5 – Inventories

Inventories consist of the following:

	June 30, 2016	**December 31, 2015**
Finished goods	$ 3,204	$ 2,946
Production supplies	3,007	2,636
Raw materials	3,101	2,082
Total inventories	$ 9,312	$ 7,664

Note 6 – Property and Equipment

Property and equipment consist of the following:

	June 30, 2016	**December 31, 2015**
Land	$ 1,807	$ 1,807
Buildings and improvements	16,581	16,387

Machinery and equipment	22,496	22,907
Vehicles	1,203	1,298
Office equipment	716	709
Construction in process	902	311
	43,705	43,419
Accumulated depreciation	(22,404)	(22,044)
Total property and equipment	$ 21,301	$ 21,375

Note 7 – Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2016	**December 31, 2015**
Accrued payroll and payroll taxes	$ 1,724	$ 859
Accrued property tax	340	377
Other	238	302
	$ 2,302	$ 1,538

Note 8 – Notes Payable

	March 31, 2016	December 31, 2015
Variable rate bank notes due May 31, 2018. Principal and interest payable monthly with a balloon payment due at maturity.	$ 3,592	$ 3,846
Variable rate bank notes due May 31, 2019. Principal and interest payable monthly with a balloon payment due at maturity.	3,947	4,113
Total notes payable	7,539	7,959
Less current maturities	840	840
Total long-term portion	$ 6,699	$ 7,119

The variable rate bank notes are subject to interest at the prime rate or at the LIBOR rate plus 2.5% and are collateralized by substantially all of the assets of the Company. In addition, under the terms of the related agreements, the Company is subject to minimum fixed charged ratio and tangible net worth thresholds, which among other things may limit the Company's ability to pay dividends or repurchase shares of its common stock. The Company was in compliance with these financial covenants at June 30, 2016. Further, under the agreements the Company is required to deliver its annual and quarterly financial statements and related SEC filings within specified timeframes. At the time of filing this Form 10-Q the Company was in compliance with these requirements.

Note 9 – Commitments and contingencies

Lease obligations -The Company leases three stores for its Lifeway Kefir Shop subsidiary. Total rent expense for these leases was $65 and $60 for the six months ended June 30, 2016 and 2015, respectively. The Company is also responsible for additional rent equal to real estate taxes and other operating expenses.

Litigation -The Company is a party to lawsuits in the normal course of business. In the opinion of management, the resolution of these lawsuits will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Note 10 – Income taxes

For each interim period, the Company estimates the effective tax rate (ETR) expected to be applicable for the full year and applies that rate to income before provision for income taxes for the period. Additionally, the Company records discrete income tax items such as enacted tax rate changes and completed tax audits in the period in which they occur.

The effective tax rate for the three months ended June 30, 2016 was 27.2% compared to 54.7% for the three months ended June 30, 2015. The effective tax rate for the six months ended June 30, 2016 was 31.3% compared to 50.6% for the six months ended

June 30, 2015. The decrease in the effective tax rates for the three and six month periods ended June 30, 2016 was due to the following items:

- During the three and six months ended June 30, 2016 we recorded an income tax benefit of $273 as a result of the favorable settlement of uncertain tax positions, which reduced the ETR for such periods by 9.2% and 6.0% respectively.

- During the three and six months ended June 30, 2015 we incurred certain operating expenses that were not fully deductible for federal income tax purposes, which increased the ETR for such periods by 12.7% and 8.6% respectively.

Note 11 – Fair Value Measurements

FASB Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2. Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes in the methodologies used as of June 30, 2016 and December 31, 2015.

The majority of the Company's fair value measurements for investments are classified within Level 1 or Level 2 of the fair value hierarchy. The Company's Level 1 fair value measurements, which include mutual funds and common stock, is based on quoted market prices in active markets for identical securities. The Company's Level 2 fair value measurements, which include corporate bonds and preferred securities, is based on quoted prices in inactive markets for identical or similar assets. The company's level 3 fair value measurements which include other than temporarily impaired bonds are based on the present value of the estimated proceeds expected to be received at maturity of the bond. Those bonds were reclassified to level 3 from level 2 during 2015.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Company's financial assets measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	Assets at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total

	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 19	$ —	$ —	$ 19
Common Stocks & ETF's	647	—	—	647
Preferred Securities	—	106	—	106
Corporate Bonds	—	808	58	866

	Assets at Fair Value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 26	$ —	$ —	$ 26
Common Stocks & ETF's	613	—	—	613
Preferred Securities	—	104	—	104
Corporate Bonds	—	1,187	161	1,348

The Company's financial assets and liabilities which are not carried at fair value on a recurring basis include cash and cash equivalents, certificates of deposit, accounts receivable, other receivables, accounts payable and notes payable for which carrying value approximates fair value.

Note 12 – Stock-based and Other Compensation

In December 2015, Lifeway shareholders approved the 2015 Omnibus Incentive Plan, which authorized the issuance of an aggregate of 3.5 million shares to satisfy awards of stock options, stock appreciation rights, unrestricted stock, restricted stock, restricted stock units, performance shares and performance units. The Company has not established a pace for the frequency of awards under the Omnibus Incentive Plan, and may choose to suspend the issuance of new awards in the future and may grant additional awards at any time including issuing special grants of restricted stock, restricted stock units and stock options to attract and retain new and existing executives.

Pursuant to the Omnibus Incentive Plan, Lifeway granted 26 stock options to certain key employees of the company effective January 1, 2016 and 24 stock options on July 1, 2016 (the "2016 options"). The 2016 options generally vest over a three-year period, on a relatively accelerated basis. The accelerated vesting reflects the landmark nature of the awards and the relative tenure of individual participants.

For the three and six months ended June 30, 2016 total pre-tax stock-based compensation expense recognized in the consolidated statements of income and comprehensive income was $21 and $42 respectively. For the three and six months ended June 30, 2016 tax-related benefits of $8 and $16 were also recognized.

	Options	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding at December 31,2015	–			
Granted	26	$ 11.10		
Exercised	–	$ –		
Terminated	–	$ –		
Outstanding at June 30, 2016	26	$ 11.10	9.75	$ –
Exercisable at June 30, 2016	–	$ –		

We measure the fair value of stock options using the Black-Scholes option pricing model. The expected term of options granted was based on the weighted average time of vesting and the end of the contractual term. We utilized this simplified method as we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term.

The following assumptions were used for the grants in 2016:

	2016
Risk free interest rate	1.85%
Expected dividend yield	0.28%
Expected volatility	38.87%
Expected term	5.65

We expense stock options on a straight-line basis over the service period. As of June 30, 2016, the total remaining unearned compensation related to non-vested stock options was $69, which will be amortized over the weighted-average remaining service period of 1.1 years.

In March 2016 Lifeway established an incentive-based compensation program for certain senior executives (the "participants"). The incentive compensation is based on the achievement of certain sales and EBITDA performance levels versus respective targets in 2016. Under the program, collectively the participants may earn cash and equity-based incentive compensation in amounts ranging from $0 to $4,000 during 2016 depending on the performance levels compared to the respective targets. The participants' achievement of equity-based compensation during the balance of 2016 is considered to be likely. At June 30, 2016 bonuses of $1,040 had been earned under the program, including $200 of equity-based awards.

The company has a defined contribution plan which is available to substantially all full-time employees. Under the terms of the plan the company matches employee contributions under a prescribed formula. For the six months ended June 30, 2016 and 2015 total contribution expense recognized in the consolidated statements of income and comprehensive income was $129 and $123 respectively. For the three months ended June 30, 2016 and 2015 total contribution expense recognized in the consolidated statements of income and comprehensive income was $47 and $62 respectively.

Note 13 – Segments, Products and Customers

The Company manufactures probiotic, cultured, functional dairy health food products. The Company's primary product is kefir, a dairy beverage similar to but distinct from yogurt, in several flavors and in several package configurations. In addition to the drinkable products, Lifeway manufactures "Lifeway Farmer Cheese," a line of various farmer cheeses.

The Company has determined that it has one reportable segment based on how the Company's chief operating decision maker manages the business and in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing company performance, has been identified collectively as the Chief Financial Officer, the Chief Operating Officer, the Chief Executive Officer and Chairman of the board of directors. Substantially all of the consolidated revenues of the Company relate to the sale of fermented dairy products which are produced using the same processes and materials and are sold to consumers through a network of distributors and retailers in the United States.

Net sales of products by category were as follows:

	Six months ended June 30,		Three months ended June 30,	
	2016	**2015**	**2016**	**2015**
Drinkable Kefir other than ProBugs	$ 54,602	$ 50,821	$ 26,535	$ 25,234
Pro Bugs	3,357	4,297	1,716	2,291
Lifeway Farmer Cheese	5,099	3,464	2,462	1,742
Frozen Kefir	643	861	418	554
Net Sales	$ 63,701	$ 59,443	$ 31,131	$ 29,821

Significant Customers --Sales are predominately to companies in the retail food industry, located within the United States. Two major customers accounted for approximately 27% and 29% of net sales for the six months ended June 30, 2016 and 2015, respectively and 27% and 31% of net sales for the three months ended June 30, 2016 and 2015 respectively.

Note 14 – Related party transactions

The Company obtains consulting services from the Chairman of its board of directors. Fees earned by the Chairman are included in general and administrative expense in the accompanying consolidated statements of income and comprehensive income and were $539 and $387 during the six months ended June 30, 2016 and 2015 respectively, and $213 and $246 during the three months ended June 30, 2016 and 2015 respectively.

Beginning in 2016 the Company is also a party to a royalty agreement with the Chairman of its board of directors under which the Company pays the Chairman a royalty based on the sale of certain Lifeway product, not to exceed $50 in any fiscal month. Royalties of $300 and $150 were earned by the Chairman during the six months and three months ended June 30, 2016 respectively and were included in selling expenses in the accompanying consolidated statements of income and comprehensive income.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in this Form 10-Q is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements, the accompanying notes, and the MD&A included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as amended (the "Form 10-K"). Unless otherwise specified, any description of "our", "we", and "us" in this MD&A refer to Lifeway Foods, Inc. and subsidiaries.

Cautionary Statement Regarding Forward-Looking Statements

In addition to historical information, this quarterly report contains "forward looking" statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements reflect our current expectations of the future and at the same time are subject to risks, uncertainties and assumptions that are difficult to predict.

In some cases, these statements may be identified by the use of words such as "may", "will", "could", "expect", "anticipate", "intend", "believe", "estimate", "plan", "predict", and similar terms or terminology, or the negative of such terms or other comparable terminology. Although we believe the expectations expressed in these forward-looking statements are based on reasonable assumptions within the bound of our knowledge of our business, our actual results could differ materially from those discussed in these statements. Factors that could contribute to such differences include, but are not limited to, those discussed in the "Risk Factors" section of the Form 10-K. We undertake no obligation to update publicly any forward-looking statements for any reason even if new information becomes available or other events occur in the future.

Comparison of the three-month period ended June 30, 2016 to the three-month period ended June 30, 2015

Results of Operations

	Three months ended June 30,		Change	
	2016	2015	$	%
Net sales	**$ 31,131**	**$ 29,821**	**$ 1,310**	**4.4%**
Cost of goods sold	$ 20,763	$ 22,760	$ 1,997	
Depreciation expense	633	604	(29)	
Total cost of goods sold	$ 21,396	$ 23,364	$ 1,968	8.4%
Gross profit	**$ 9,735**	**$ 6,457**	**$ 3,278**	**50.8%**
Gross Profit % to net sales	*31.3%*	*21.7%*		
Selling expenses	$ 3,463	$ 2,618	$ (845)	(32.3%)
Selling expenses % to net sales	*11.1%*	*8.8%*		
General & administrative expenses	$ 3,046	$ 3,611	$ 565	15.6%
General & administrative % to net sales	*9.8%*	*12.1%*		
Amortization expense	$ 177	$ 179	$ 2	1.1%
Total operating expenses	**$ 6,686**	**$ 6,408**	**$ (278)**	**4.3%**
Total operating expense % to net sales	*21.5%*	*21.5%*		
Income from operations	**$ 3,049**	**$ 49**	**$ 3,000**	**n.m.**
Income from operations % to net sales	*9.8%*	*0.2%*		

Net Sales

Net sales increased by $1,310 or 4.4% to $31,131. The increase in net sales was driven by strong private label sales, the introduction of new items, fewer discounts given to our customers and relatively flat sales of our flagship 32-ounce product.

Gross Profit

Gross profit as a percent of net sales increased to 31.3% during the three-month period ended June 30, 2016 from 21.7% during the same three-month period in 2015. The increase in the gross profit percent reflects lower milk prices, fewer discounts given to our customers, lower packaging costs, improved labor productivity and improved leverage of indirect manufacturing costs on higher production volumes in our Waukesha facility partially offset by an increase in certain ingredient costs.

Selling Expenses

Selling expenses increased by $845 or 32.3% to $3,463 during the three-month period ended June 30, 2016 from $2,618 during the same period in 2015, reflecting an increase in advertising costs and higher royalty expense. During the second quarter of 2016, we ran an eight-week advertising campaign targeted towards our ProBugs consumer that drove the increased advertising expense. Selling expenses as a percentage of sales were 11.1% for the three-month period ended June 30, 2016 compared to 8.8% for the same period in 2015.

General and administrative expenses

General and administrative expenses declined $565 or 15.6% to $3,046 during the three-month period ended June 30, 2016 from $3,611 during the same period in 2015. The decline is primarily a result of lower professional fees. We experienced elevated levels of legal and professional fees in the prior year related to our delayed SEC filings, additional audit fees and costs associated with remediation of our internal control environment.

Income from operations and net income

The company reported income from operations of $3,049 during the three months ended June 30, 2016, compared to $49 during the same period in 2015. Provision for income taxes was $789, or a 27.2% effective rate during three months ended June 30, 2016, compared to a provision for income taxes of $120 or a 54.7% effective tax rate during the same period in 2015. Income taxes are discussed in Note 10 in the Notes to the Consolidated Financial Statements.

Net income was $2,107 or $0.13 per basic and diluted common share for the three-month period ended June 30, 2016 compared to $ 98 or $0.01 per basic and diluted common share in the same period in 2015.

Comparison of the six-month period ended June 30, 2016 to the six-month period ended June 30, 2015

Results of Operations

	Six months ended June 30,		Change	
	2016	**2015**	**$**	**%**
Net sales	**$ 63,701**	**$ 59,443**	**$ 4,258**	**7.2%**
Cost of goods sold	$ 44,002	$ 43,866	$ (136)	
Depreciation expense	1,264	1,195	(69)	
Total cost of goods sold	$ 45,266	$ 45,061	$ (205)	0.5%
Gross profit	**$ 18,435**	**$ 14,382**	**$ 4,053**	**28.2%**
Gross Profit % to net sales	*28.9%*	*24.2%*		
Selling expenses	$ 6,427	$ 5,920	$ (507)	(8.6%)
Selling expenses % to net sales	*10.1%*	*10.0%*		
General & administrative expenses	$ 6,992	$ 6,645	$ (347)	(5.2%)
General & administrative % to net sales	*11.0%*	*11.2%*		
Amortization expense	$ 353	$ 358	$ 5	1.4%

Total operating expenses	**$ 13,772**	**$ 12,923**	**$ (849)**	**(6.6%)**
Total operating expense % to net sales	*21.6%*	*21.7%*		
Income from operations	**$ 4,663**	**$ 1,459**	**$ 3,204**	**219.6%**
Income from operations % to net sales	*7.3%*	*2.5%*		

Net Sales

Net sales increased by $4,258 or 7.2% to $63,701. The increase in net sales was driven by strong private label sales, higher sales of our flagship 32-ounce product, the introduction of new items and lower discounts given to customers, partially offset by lower sales of our ProBugs product.

Gross Profit

Gross profit as a percent of net sales increased to 28.9% during the six-month period ended June 30, 2016 from 24.2% during the same period in 2015. The improvement in the gross profit percent reflects lower milk prices, improved leverage of our indirect manufacturing costs, primarily related to our Waukesha facility which continued to expand production volumes partially offset by an increase in certain ingredient costs.

Selling Expenses

Selling expenses increased by $507 or 8.6% to $6,427 during the six-month period ended June 30, 2016 from $5,920 during the same period in 2015 reflecting increased salaries due primarily to higher headcount, additional royalty expenses and flat advertising costs. Selling expenses as a percentage of sales were 10.1% for the six-month period ended June 30, 2016 compared to 10.0% for the same period in 2015.

General and administrative expenses

General and administrative expenses increased $347 or 5.2% to $6,992 during the six-month period ended June 30, 2016 from $6,645 during the same period in 2015. The increase is primarily a result of increases in salaries partially offset by lower professional fees. The increase in salaries reflects higher levels of executive compensation for senior management driven by incentive compensation and an increase in the headcount of the overall management team. Professional fees, which consist primarily of legal and accounting fees declined modestly in the six-month period ended June 30, 2016 due primarily to the elevated levels of fees in the prior year related to our delayed SEC filings, additional audit fees and costs associated with remediation of our internal control environment. Additionally, we have made a concerted effort to contain professional fees in 2016.

Income from operations and net income

The company reported income from operations of $4,663 during the six months ended June 30, 2016, compared to $1,459 during the same period in 2015. Provision for income taxes was $1,395, or a 31.3% effective rate during six months ended June 30, 2016, compared to a provision for income taxes of $770 or a 50.6% effective tax rate, during the same period in 2015. Income taxes are discussed in Note 10 in the Notes to the Consolidated Financial Statements.

Net income was $3,062 or $0.19 per basic and diluted common share for the six-month period ended June 30, 2016 compared to $753 or $0.05 per basic and diluted common share in the same period in 2015.

Liquidity and Capital Resources

Sources and Uses of Cash

We anticipate foreseeable liquidity and capital resource requirements to be met through operating cash flows; long term and short term borrowings, and cash and cash equivalents. We continue to explore potential acquisition opportunities in our industry in order to boost sales while leveraging our manufacturing and distribution systems.

Net cash provided by operating activities was $1,861 during the six months ended June 30, 2016 compared to net cash provided by operating activities of $4,703 in the same period in 2015. The decline is primarily attributable to increased inventory levels attributable to the expansion of our Waukesha production levels; increased receivable balances reflecting the year over year sales growth and the unfavorable timing of payments to suppliers and service providers in 2016.

Net cash used in investing activities was $285 during the six-months ended June 30, 2016 compared to net cash used in investing activities of $1,473 in the same period in 2015. The lower level of net cash used in investing activities reflects liquidity provided from our investments in part to fund our share repurchase activity. Capital spending was relatively flat year over year and reflects continuing investments in new productive equipment and on-going maintenance capital spending.

Net cash used in financing activities was $1,158 during the six-months ended June 30, 2016 compared to net cash used in investing activities of $617 in the same period in 2015. We repurchased 69 shares of common stock at a cost of $738 in the six months ended June 30, 2016. There were no share repurchases in the same period in 2015. On September 24, 2015, the Company's Board of Directors authorized a stock repurchase program under which the Company may repurchase up to $3,500 of common stock not to exceed an aggregate of 250 shares. Approximately $1,200 remained available under this authorized program as of June 30, 2016. The repurchase program has no expiration date and may be suspended or discontinued at any time.

The Company had a net increase in cash and cash equivalents of $418 during the six-month period ended June 30, 2016 compared to a net increase in cash and cash equivalents of $2,613 in the same period in 2015.

At June 30, 2016, the Company had $840 of current maturities of notes payable. The Company previously had a $5 million revolving credit facility, which expired in July 2016.

The company is in compliance with the covenants contained in its loan agreements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

For information regarding our exposure to certain market risk, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Form 10-K. There have been no significant changes in our market risk exposures from the 2015 year-end.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

Our evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act was performed under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer. The purpose of disclosure controls and procedures is to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

As previously disclosed under “Item 9A—Controls and Procedures” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as amended, we concluded that our internal control over financial reporting was not effective based on the material weaknesses identified. Based on those material weaknesses, which we view as an integral part of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the quarter ended June 30, 2016, our disclosure controls and procedures were not effective. Nevertheless, based on a number of factors, including the performance of additional procedures by management designed to ensure the reliability of our financial reporting, we believe that the consolidated financial statements in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

(b) Changes in Internal Control over Financial Reporting

Our remediation efforts were ongoing during the three months ended June 30, 2016. Remediation generally requires making changes to how controls are designed and implemented and then adhering to those changes for a sufficient period of time such that the effectiveness of those changes is demonstrated with an appropriate amount of consistency. We have taken certain remediation steps to address the material weaknesses referenced above and to improve our control over financial reporting. If not remediated these deficiencies could result in material misstatements to our consolidated financial statements.

In addition to the actions previously disclosed under "Item 9A—Controls and Procedures" in our Form 10-K, our remediation initiatives summarized below, are intended to further address our specific material weaknesses and to continue to enhance our internal control over financial reporting.

Management's Remediation Initiatives

- Our leadership team remains committed to achieving and maintaining a strong control environment, high ethical standards and financial reporting integrity. This commitment continues to be communicated to and reinforced with our employees.

- We continue to foster awareness and understanding of standards and principles for accounting and financial reporting. This includes the implementation and clarification of specific accounting policies and procedures.
- We continue to enhance the development, communication, and monitoring of processes and controls to ensure that appropriate account reconciliations and journal entry controls are performed, documented, and reviewed as part of our standardized procedures.
- We continue to improve the planning, coordination, communication and discipline in our period-end closing and financial statement preparation process in order to increase both its effectiveness and efficiency.
- The audit committee of our board of directors has maintained an elevated frequency and depth of its discussions with management regarding financial reporting and internal control matters.
- During the three months ended March 31, 2016 we took the following actions to improve our internal controls over financial reporting:

    - We in-sourced our fixed asset system and related transaction processing from a third party service provider, enabling the transacting of fixed asset additions and depreciation journal entries earlier in our quarterly close process.
    - We consolidated our income tax accounting services and income tax return preparation under a single third party service provider. Consolidating these activities into a single service provider enhances our ability to close the books on timely and accurate basis.

- During the three months ended June 30, 2016 we took the following actions to improve our internal controls over financial reporting:

    - We have increased the size and capabilities of our finance and accounting functions by establishing a new role that oversees financial planning and analysis. Our former corporate controller has begun transitioning into this new role. Also, in July 2016 we hired a new corporate controller with significant public accounting and financial reporting experience who has begun transitioning into his role.
    - We have implemented a management disclosure committee of representatives from our finance, accounting, and legal departments to enhance the review and operation of our disclosure controls and procedures. From time to time, we will supplement the committee with members from other areas of our management team and business, including our outsourced internal audit and investor relations functions.
    - We have centralized our payroll processing activities from three locations down to one. The centralization improves management's oversight and better segregates time and attendance activities from payroll processing activities.
    - We have updated and expanded our whistleblower policy and retained a new third-party service provider to manage the administrative aspects of our whistleblower hotline.
    - We have formalized our contract approval process. The formalized process establishes explicit levels of authority for contract approval and requires specific levels of review. The improved process includes a documented policy and enabling technology that will enhance governance over significant contracts.

There were no other material changes in our internal control over financial reporting that occurred during the three months ended June 30, 2016 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Lifeway is not party to any material pending legal proceedings. Lifeway is from time to time engaged in litigation matters arising in the ordinary course of business none of which presently is expected to have a material adverse effect on its business results or operations.

ITEM 1A. RISK FACTORS.

There have been no material changes to the Risk Factors disclosed in our Form 10-K, as amended, and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2016, as amended.

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

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced program (a)	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs ($ in thousands)
4/1/2016 to 4/30/2016	23,473	$ 9.85	23,473	$ 1,282
5/1/2016 to 5/30/2016	7,135	$ 9.58	7,135	$ 1,214
6/1/2016 to 6/30/2016	—	$ —	—	$ 1,214
Total	**30,608**	**$ 9.79**	**30,608**	**$ 1,214**

(a) During the fourth quarter of 2015, the company had a publicly announced share repurchase program. Under this program, which was announced on September 24, 2015, the company's Board of Directors authorized the purchase of up to $3.5 million of company stock. The program has no expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURE.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

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 August 17, 2016 reporting the Company's financial results for the six months ended June 30, 2016.
101	Interactive Data Files.

* This exhibit is furnished and will not be deemed "filed."

SIGNATURES

Pursuant to 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.

Date: April 7, 2017	By: /s/ Julie Smolyansky Julie Smolyansky Chief Executive Officer, President, and Director (Principal Executive Officer)
Date: April 7, 2017	By: /s/ John P. Waldron John P. Waldron Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX OF EXHIBITS

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EXHIBIT 31.1

SECTION 302 CERTIFICATION OF C.E.O.
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Julie Smolyansky, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Lifeway Foods, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 7, 2017

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

EXHIBIT 31.2

SECTION 302 CERTIFICATION OF C.F.O.
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John P. Waldron, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Lifeway Foods, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 7, 2017

By: /s/ John P. Waldron
John P. Waldron
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

SECTION 906 CERTIFICATION OF C.E.O.
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q/A of Lifeway Foods, Inc. (the "Company") for the period ended June 30, 2016 as filed with the SEC (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to her knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: April 7, 2017

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

EXHIBIT 32.2

SECTION 906 CERTIFICATION OF C.F.O.
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Lifeway Foods, Inc. (the "Company") for the period ended June 30, 2016 as filed with the SEC (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: April 7, 2017

By: /s/ John P. Waldron
John P. Waldron
Chief Financial Officer
(Principal Financial and Accounting Officer)