UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

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

For the transition period from: __________ to __________
Commission file number: 0-17363

LIFEWAY FOODS, INC.
(Name of registrant as specified in its charter)

Illinois	**36-3442829**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

6431 West Oakton, Morton Grove, Illinois 60053
(Address of principal executive offices) (Zip Code)

Registrant's telephone number:
(847) 967-1010

Securities registered under Section 12(b) of the Exchange Act:
Common Stock, No Par Value

Securities registered under Section 12(g) of the Exchange Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 Website, 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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 Act). Yes ☐ No ☑

The aggregate market value of the voting and non-voting common equity held by non-affiliates (approximately 4,876,074 shares) computed by reference to the price at which the stock was sold as of March 1, 2010 ($11.83 per share as quoted on the National Market System of the Nasdaq Stock Market) was: $57,683,955.

The number of shares outstanding of each of the issuer's classes of common equity, as of March 1, 2010 is 16,753,190 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE:

No portions of the Notice of Annual Meeting and Proxy Statement for the Registrant's 2010 Annual Meeting of Shareholders, scheduled to be held June 18, 2010, are incorporated by reference in Part III. Such Notice is to be filed no later than May 8, 2010.

LIFEWAY FOODS, INC.

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PART I

CAUTIONARY STATEMENT IDENTIFYING IMPORTANT FACTORS THAT COULD CAUSE THE COMPANY'S ACTUAL RESULTS TO DIFFER FROM THOSE PROJECTED IN FORWARD LOOKING STATEMENTS

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, readers of this document and any document incorporated by reference herein, are advised that this document and documents incorporated by reference into this document contain both statements of historical facts and forward looking statements. Forward looking statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those indicated by the forward looking statements. Examples of forward looking statements include, but are not limited to (i) projections of revenues, income or loss, earnings or losses per share, capital expenditures, dividends, capital structure and other financial items, (ii) statements of Lifeway Foods, Inc.'s plans and objectives, including the introduction of new products, or estimates or predictions of actions by customers, suppliers, competitors or regulatory authorities, (iii) statements of future economic performance, and (iv) statements of assumptions underlying other statements and statements about Lifeway Foods, Inc. or its business.

This document and any documents incorporated by reference herein also identify important factors which could cause actual results to differ materially from those indicated by forward looking statements. These risks and uncertainties include price competition, the decisions of customers or consumers, the actions of competitors, changes in the pricing of commodities, the effects of government regulation, possible delays in the introduction of new products, customer acceptance of products and services, and other factors which are described herein and/or in documents incorporated by reference herein.

The cautionary statements made pursuant to the Private Litigation Securities Reform Act of 1995 above and elsewhere by Lifeway Foods, Inc. ("Lifeway" or the "Company") should not be construed as exhaustive or as any admission regarding the adequacy of disclosures made by Lifeway prior to the effective date of such act. Forward looking statements are beyond the ability of Lifeway to control and in many cases we cannot predict what factors would cause results to differ materially from those indicated by the forward looking statements.

ITEM 1. *BUSINESS.*

BUSINESS DEVELOPMENT

Lifeway Foods, Inc., an Illinois corporation, commenced operations in February 1986, and was incorporated under the laws of the State of Illinois on May 19, 1986. The Company's principal business activity is the manufacturing of probiotic, cultured, functional dairy and non-dairy health food products. Lifeway's primary products are kefir, a drinkable dairy beverage similar to but distinct from yogurt, in several flavors sold under the name "Lifeway Kefir" and "Helios Nutrition Organic Kefir"; a line of various drinkable yogurts sold under the "La Fruta," "Tuscan" and "Lassi" brands; and "BasicsPlus," a dairy based immune-supporting dietary supplement beverage. The Company also produces several soy-based kefir beverages under the "SoyTreat" trademark. In addition to the drinkable products, Lifeway manufactures "Lifeway Farmer Cheese," a line of various farmer cheeses, a line of gourmet cream cheeses, and "Sweet Kiss," a fruit sugar-flavored spreadable cheese similar in consistency to cream cheese. The Company also manufactures and markets a vegetable-based seasoning under the "Golden Zesta" brand. In the Chicago metropolitan area, Lifeway distributes its products on its own trucks and via one distributor. Lifeway manufactures all of its products at Company-owned facilities and distributes its products primarily throughout the United States. The Company directly distributes its products in the Philadelphia metropolitan area using its own trucks**.**

SUBSIDIARY ENTITIES

On August 3, 2006, the Company acquired all of the issued and outstanding stock of Helios Nutrition, Ltd. ("Helios"). Pride of Main Street Dairy, L.L.C., a Minnesota limited liability company, is 100% owned by Helios.

On February 6, 2009, the Company acquired all of the issued and outstanding stock of Fresh Made, Inc., a Pennsylvania corporation ("Fresh Made") for a combination of $8,050,000 (less certain offsets) in cash, and a promissory note in the principal amount of $2,735,000, due on February 6, 2011, 128,948 shares of common stock of Lifeway valued at a total of $980,000, and cancellation of a $265,000 loan. In connection with such acquisition, Lifeway also acquired 1.135 acres of land in Philadelphia, Pennsylvania (the "Property"). The consideration for the Property was $2,000,000.

Starfruit, L.L.C. and Starfruit Franchisor, L.L.C. are both wholly-owned subsidiaries formed on March 26, 2007 and July 15, 2008 respectively in connection with the Company's Starfruit cafe activities.

BUSINESS OF ISSUER

PRODUCTS

Lifeway's primary product is kefir, which, like the better-known product of yogurt, is a fermented dairy product. Kefir has a slightly effervescent quality, with a taste similar to yogurt and a consistency similar to buttermilk. It is a product distinct from yogurt because it incorporates the unique microorganisms of kefir as the cultures to ferment the milk. Lifeway's Kefir is a drinkable product intended for use as a breakfast meal or a snack, or as a base for lower-calorie dressings, dips, soups or sauces. Kefir is also used as the base of Lifeway's plain farmer's cheese, a cheese made without salt, sugar or animal rennet. In addition, kefir is the primary ingredient of Lifeway's "Sweet Kiss" product, a fruit sugar-flavored, cream cheese-like spread which is intended to be used as a dessert spread or frosting.

Kefir contains a unique mixture of several live microorganisms and nutrients such as proteins, minerals and vitamins. Kefir is highly digestible and, due to its acidity and enzymes, stimulates digestion of other foods. Kefir is considered to be the most favorable milk product for people suffering from genetically-based lactose intolerance. A study published in the May 2003 issue of the Journal of the American Dietetic Association suggests that kefir improves lactose digestion and tolerance in adults with lactose maldigestion. Studies also indicate that kefir may stimulate protein digestion and appetite, decrease the cholesterol content in blood, improve salivation and excretion of stomach and pancreatic enzymes and peristalsis. As compared to yogurt, many naturopathic practitioners consider kefir to be the best remedy for digestive troubles because it has a very low curd tension (the curd breaks up very easily into small particles). The curd of yogurt, on the other hand, holds together or breaks into lumps. The small size of the kefir curd facilitates digestion by presenting a large surface area on which digestive agents may work.

Kefir is a good source of calcium, protein, and Vitamin B-complex. In addition, because the fermentation process produces a less sour tasting product than yogurt, less sugar is required to make a desirable product, and the end product contains fewer calories than regular yogurt.

Lifeway currently sells some or all of the products listed below, except as specifically noted, to various retail establishments including supermarkets, grocery stores, gourmet shops, delicatessens and convenience stores.

LIFEWAY'S KEFIR. "Lifeway's Kefir" is a drinkable kefir product manufactured in ten regular and low-fat varieties, including plain, pomegranate, raspberry, blueberry, strawberry, cherry, peach, banana-strawberry, cappuccino and vanilla, and sold in 32 ounce containers and 8 ounce single serving containers featuring color-coded caps and labels describing nutritional information. In March 1996, Lifeway began marketing its non-fat, low-cholesterol kefir in six flavors — plain, raspberry, strawberry, strawberry-banana, peach and blueberry. The kefir product is currently marketed under the name "Lifeway's Kefir," and is typically sold by retailers from their dairy sections.

LIFEWAY'S ORGANIC SOYTREAT. "SoyTreat" is a soy alternative to dairy kefir and is made from organic soy milk, which is derived from non-genetically modified soybeans. SoyTreat can be consumed by those who desire the benefits of kefir, but are lactose intolerant or interested in a soy-based alternative to milk. SoyTreat also provides 7.0g of soy protein per serving, and features the United States Food and Drug Administration-approved health claim, "25g of soy protein a day as part of a diet low in saturated fat can help lower cholesterol and reduce the risk of heart disease." At present SoyTreat is manufactured in two flavors: strawberry and peach.

LIFEWAY'S ORGANIC KEFIR. "Lifeway's Organic Kefir" meets the organic standards and specifications of the United States Department of Agriculture for organic products and is manufactured in five flavors: plain, wildberry, raspberry, strawberry and peach. Lifeway's Organic Kefir is sweetened with organic cane juice.

LIFEWAY'S SLIM6. "Lifeway's Slim6" is a line of low-fat kefir beverages with no added sugar designed for consumers who follow low-carbohydrate diets. Lifeway's Slim6 has only 8 grams of carbohydrates and 2.5 grams of fat per 8-ounce serving and is available in five flavors: strawberries n' cream, mixed berry, tropical fruit, strawberry-banana and an original, unsweetened version.

PROBUGS. "ProBugs" is a kefir product that contains 10 live and active kefir cultures. Aimed at children ages 2-9, ProBugs comes in three flavors, "Sublime Slime Lime®," "Orange Creamy CrawlerT®" and "Goo-Berry Pie®" and is packaged in patented no spill spout pouches designed as cartoon bug characters Peter, Polly and Penelope ProBug®.

LA FRUTA DRINKABLE YOGURT. "La Fruta" is a yogurt-like drink similar to a milkshake or smoothie that is specifically formulated to accommodate the Hispanic market, the fastest growing demographic in the United States. La Fruta is manufactured in six flavors: strawberry, mango, pina colada, banana-strawberry, horchata and tres leches.

LA FRUTA CHEESE. "La Fruta Cheese" is a cheese product similar to cream cheese that is specifically formulated to accommodate the Hispanic market, the fastest growing demographic in the United States. La Fruta Cheese is manufactured in a tres leches flavor.

TUSCAN BRAND DRINKABLE YOGURT. "Tuscan Brand Drinkable Yogurt" is a cultured dairy beverage mainly marketed on the East Coast and manufactured in a variety of flavors which vary depending upon distributor demand.

FARMER CHEESE. "Farmer Cheese" is based on a cultured soft cheese and is intended to be used in a variety of recipes as a low fat, low-cholesterol, low-calorie substitute for cream cheese or ricotta, and is available in various styles.

SWEET KISS. "Sweet Kiss" is a sweet cheese probiotic spread available in five flavors: plain, plain with raisins, apple, peach and chocolate.

ELITA; BAMBINO. "Elita" and "Bambino" cheeses are low-fat, low-cholesterol kefir based cheese spreads which are marketed as an alternative to cream cheese.

KRESTYANSKI TWOROG. "Krestyanski Tworog" is a European-style kefir-based soft style cheese which can also be used in a variety of recipes, eaten with a spoon, used as a cheese spread, or substituted in recipes for cream cheese, ricotta cheese or cottage cheese and is marketed to consumers of various Eastern European ethnicities.

BASICS PLUS. "Basics Plus" is a patented kefir-based beverage product designed to improve gastrointestinal functions, enhancing the immune system. This product contains certain "passive immunity products" purchased from GalaGen, Inc. prior to its 2002 bankruptcy. Lifeway is currently engaged in discussion with several potential new suppliers of passive immunity products and is not currently manufacturing this beverage.

KEFIR STARTER. "Kefir Starter" is a powdered form of kefir that is sold in envelope packets and allows a consumer to make his or her own drinkable kefir at home by adding milk. Lifeway continues to develop sales of this product internationally and via the internet.

LASSI. "Lassi" is a cultured drink inspired by the traditions of India. Sold in 8 ounce containers in two flavors, strawberry and mango.

GOLDEN ZESTA. "Golden Zesta" is a vegetable-based seasoning, which, because of its low sodium content, may also be used as a salt substitute and is marketed to delicatessens, gourmet shops and ethnic grocers.

IT'S PUDDING. "It's Pudding!" is the only organic pudding produced in the following flavors: rice, chocolate, vanilla, banana and tapioca.

HELIOS NUTRITION ORGANIC KEFIR. "Helios Nutrition Organic Kefir" is a kefir product made from organic milk and manufactured with a unique blend of active cultures. It is sold in 8 and 32 ounce bottles and made in five flavors: peach, plain, strawberry, vanilla and raspberry.

Lifeway intends to continue to develop new products based on kefir and Farmer Cheese. There is no assurance that such products or any other new products can be developed successfully or marketed profitably.

DISTRIBUTION

With its thirteen company-owned trucks, Lifeway distributes its products directly and extensively in the State of Illinois, primarily in the Chicago metropolitan area. Lifeway also directly distributes its products in the Philadelphia and Tri State metropolitan area.

In addition to the Chicago and Philadelphia and Tri State metropolitan areas, Lifeway's products are distributed to stores throughout the United States. Lifeway has verbal distribution arrangements with various distributors throughout the United States. These verbal distribution arrangements, in the opinion of Lifeway, allow management the necessary latitude to expand into new areas and markets and establish new relationships with distributors on an ongoing basis. Lifeway has not offered any exclusive territories to any distributors.

Distributors are provided Lifeway products at wholesale prices for distribution to their retail accounts. Lifeway believes that the price at which its products are sold to its distributors is competitive with the prices generally paid by distributors for similar products in the markets served. In all areas served, distributors currently deliver the products directly to the refrigerated cases of dairy sections of their retail customers. Each distributor carries a line of Lifeway's products on its trucks, checks the retail stores for space allocated to Lifeway's products, determines inventory requirements of the store and places Lifeway products directly into the retailers' dairy cases. Lifeway believes this method of distribution best serves the needs of each retail store, and is the best available means to ensure consistency and quality of product handling, quality control, flavor selection and favorable retail display. Under the distribution arrangements, each distributor must meet certain prescribed product handling, service and administrative requirements including, among others, frequency of delivery, replacement of damaged, old or substandard packages, and delivery of products directly to the refrigerated case.

Additionally, Lifeway has attempted international distribution of certain of its products by attempting to export to distributors operating in the Canadian provinces of Ontario and Quebec. Lifeway's products are subject to strict import quotas imposed by the Trade Control Policy Division of the Department of Foreign Affairs and International Trade of Canada. In an attempt to address this situation, management is exploring various alternatives to permit expansion of Lifeway's product line in Canada. Lifeway believes that it currently is in compliance with all applicable Canadian regulations.

MARKETING

Lifeway continues to promote the verifiable nutritional characteristics, purity and good taste of its kefir and kefir-based products. Lifeway primarily advertises its products through local radio stations, which advertisements are directed to both users and non-users of cultured milk products of all kinds. In addition, through newspaper and magazine advertising, Lifeway provides educational information on its products and appeals to the common perception that the products may be of particular benefit for a wide range of ills, including intestinal disorders, and continues to educate the public on the possible health benefits which could be derived from the use of kefir and kefir-based products. Lifeway believes that the potential for healthful benefits as suggested by the educational information it has obtained properly serves as the basis for such an advertising strategy.

In addition to local radio stations, newspapers and magazines, Lifeway promotes further exposure of its products through the internet, catalog advertising and promotion, store demonstrations throughout the United States, and participation in various trade shows. Lifeway also sponsors several different sporting events in the Chicago metropolitan area as an additional marketing tool.

Lifeway does not promote products manufactured under the LaFruta and Tuscan brand names with any marketing or advertising.

COMPETITION

Although Lifeway faces a small amount of direct competition in the United States and Canadian markets for kefir products, Lifeway's kefir-based products compete with all other yogurt and other dairy products. Many producers of yogurt and other dairy products are well-established and have significantly greater financial resources than Lifeway to promote their products.

In connection with the certain Stockholders' Agreement, as amended, between Lifeway, Danone Foods, Inc. and other parties, as well as certain other transactions between these two foregoing companies described elsewhere in this report, the parties agreed that they would not compete with each other during the term of the Stockholders' Agreement, as extended, with respect to certain yogurt, cheese and kefir products. Specifically, Lifeway agreed not to produce or sell in the United States or Western Europe any type of yogurt, fromage frais, Italian style cheese, chilled desserts or any soy-based products, other than those that are kefir-based or those that were already being produced and sold by Lifeway as of December 24, 1999, and Danone agreed not to produce or sell any type of kefir-based products in the United States. On December 31, 2009, the term of the Stockholders' Agreement was extended to December 31, 2010.

SUPPLIERS

Lifeway purchases its raw materials, such as milk, sugar and fruit from unaffiliated suppliers, and is not limited or contractually bound to any supplier. Lifeway has ready access to multiple suppliers for all of its raw materials and packaging requirements. Prior to making any purchase, Lifeway determines which supplier can offer the lowest price for the highest quality of product. The raw and packaging materials purchased by Lifeway are considered commodity items and are widely available on the open market with the exception of the licensed ingredient in BasicsPlus. Lifeway owns and operates the means of production of all of its products.

MAJOR CUSTOMERS

Lifeway distributes its products to numerous accounts throughout the United States. Concentrations of credit with regard to trade accounts receivable and sales are limited due to the fact that Lifeway's customers are spread across different geographic areas. However, customers are concentrated in the retail food industry, for example, Trader's Joe's. In 2009, Lifeway's largest customer represented approximately 9% of sales and reflected sales in various regions of the United States outside the Chicago, Illinois metropolitan area.

TRANSACTIONS WITH GROUPE DANONE SA

All share amounts and prices in this subsection are historical and have not been adjusted for the stock splits which occurred in the first quarter of 2004 and the second quarter of 2006. On October 1, 1999, Lifeway and certain members of the Smolyansky family sold shares of restricted common stock to Danone at $10.00 per share. Later in 1999, Danone purchased additional shares of common stock from certain individuals, including shares purchased in transactions with certain Company affiliates, including Lifeway's founder Michael Smolyansky, Val Nikolenko, Vice President of Production and Pol Sikar, a director, and his affiliates. As a result of these transactions, Danone became the beneficial owner of 20% of the outstanding common stock of Lifeway. Pursuant to the terms and conditions of the transaction, Lifeway granted certain limited rights to Danone, which include a right to nominate one director, anti-dilutive rights relating to future offerings and limited registration rights. In addition, as described above, Lifeway and Danone are parties to a Stockholders' Agreement dated October 1, 1999, pursuant to which the parties agreed that they would not compete with each other through December 31, 2009 with respect to certain yogurt, cheese and kefir products. The Stockholders' Agreement also provides that Danone may not own more than 20% of the outstanding common stock of Lifeway as a result of direct or indirect acquisition of shares. Danone's interest as of December 31, 2009 was approximately 20.6% due to reductions in Lifeway's shares outstanding, primarily due to share repurchases by Lifeway. On December 31, 2009, the term of the Stockholders' Agreement was extended to December 31, 2010. The ability of Danone to sell such a large stake in Lifeway could have a negative effect on the Company's stock price.

PATENTS, TRADEMARKS, LICENSES, ROYALTY AGREEMENTS

All trademark registrations have been granted by the United States Patent and Trademark Office ("USPTO"), unless otherwise noted below. Each trademark registration may be renewed upon expiration. Lifeway intends to make all timely filings as required for all trademarks listed.

Mark	Use	Date of Registration	Expiration of Registration	Comments
Lifeway	Cheese and kefir	December 12, 1989	December 12, 2019	Registration was timely renewed on December 12, 2009. Registration is renewable for ten year periods or during the six-month grace period following the registration expiration date.
Sweet Kiss	Cheese, cottage cheese and other milk products, excluding ice cream, ice milk and frozen yogurt	February 10, 1998	February 10, 2018	Registration was timely renewed on May 23, 2008. Registration is renewable for ten year periods or during the six-month grace period following the registration expiration date.
Kwashenka	Kefir, yogurt, cheeses, cottage cheeses and other milk products, excluding ice cream, ice milk and frozen yogurt	February 10, 1998	February 10, 2018	An Affidavit of Continued Use was timely filed between the 5th and 6th anniversaries of the registration date. Registration is renewable between the 9th and 10th anniversaries of the registration date or the six-month grace period following the registration expiration date.
Bambino	Cheeses, cottage cheeses and other milk products	October 7, 2003	October 7, 2013	An Affidavit of Continued Use was timely filed between the 5th and 6th anniversaries of the registration date. Registration is renewable between the 9th and 10th anniversaries of the registration date or the six-month grace period following the registration expiration date.

Mark	Use	Date of Registration	Expiration of Registration	Comments
KPECTBRHCKNN (A stylized presentation of “Krestyanskiy” in Cyrillic characters- means “Peasant”)	Cheeses, cottage cheeses and other milk products excluding ice cream, ice milk and frozen yogurt	September 8, 1998	September 8, 2018	Registration was timely renewed on August 23, 2008. Registration is renewable for ten year periods or during the six-month grace period following the registration expiration date.
BA3APHBIII (A stylized presentation of “Bazarny” in Cyrillic characters)	Pressed unripened cheese	July 25, 2000	July 25, 2010	An Affidavit of Continued Use was timely filed between the 5th and 6th anniversaries of the registration date. Registration is renewable between the 9th and 10th anniversaries of the registration date or the six-month grace period following the registration expiration date.
BA3APHBIII (A stylized presentation of “Bazarny” in Cyrillic characters)	Cultured milk products, excluding ice cream, ice milk and frozen yogurt; cheeses and cottage cheese.	March 17, 2009	March 17, 2019	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.
BAZARNY	Cultured milk products, excluding ice cream, ice milk and frozen yogurt; cheeses and cottage cheese.	March 31, 2009	March 31, 2019	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.
SoyTreat	Soy-based food beverage intended for use as cultured milk substitute	November 11, 2008	November 11, 2014	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.
Korovka	Dairy-based spread	November 6, 2001	November 6, 2011	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.
La Fruta	Cultured milk products, excluding ice cream, ice milk and frozen yogurt	March 29, 2005	March 29, 2015	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.

Mark	Use	Date of Registration	Expiration of Registration	Comments
PTICHYE MOLOKO (a stylized presentation of "Ptichye Moloko" in Cyrillic characters)	Kefir, yogurt, cheeses, cottage cheeses and other milk products, excluding ice cream, ice milk and frozen yogurt	October 18, 2005	October 18, 2015	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.
BIOKEFIR	Yogurt, cheeses, cottage cheeses and other milk products, excluding ice cream, ice milk and frozen yogurt			Application filed April 8, 2008, on an intent-to-use basis. A Notice of Allowance was issued on November 18, 2008. A Statement of Use is due on May 18, 2010, or within the 3 year extension period following the Notice of Allowance date. After acceptance of the Statement of Use, registration will precede in due course.
SUBLIME SLIME LIME	Dairy-based beverages; dairy-based food beverages; kefir; soy- based food beverage used as milk substitute	July 10, 2007	July 10, 2013	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.
PROBUGS	Dairy-based beverages; dairy-based food beverages; kefir; soy- based food beverage used as milk substitute	July 10, 2007	July 10, 2013	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.
ORANGE CREAMY CRAWLER	Dairy-based beverages; dairy-based food beverages; kefir; soy- based food beverage used as milk substitute	July 10, 2007	July 10, 2013	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.
(DESIGN)	Dairy-based beverages; dairy-based food beverages; kefir; soy- based food beverage used as milk substitute	July 17, 2007	July 17, 2013	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.
(DESIGN)	Dairy-based beverages; dairy-based food beverages; kefir; soy- based food beverage used as milk substitute	July 10, 2007	July 10, 2013	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.

Mark	Use	Date of Registration	Expiration of Registration	Comments
(DESIGN) Penelope	Dairy-based beverages; dairy-based food beverages; kefir; soy- based food beverage used as milk substitute	April 8, 2008	April 8, 2014	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.
PRIDE OF MAIN STREET	Dairy Product	November 9, 1987	November 9, 2007	Only for the State of Miinesota, not in US
HELIOS NUTRITION	Dairy products and functional foods	October 5, 1999	April 5, 2010	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.
STARFRUIT	Franchise services, namely, offering technical and business management assistance in the establishment and operation of restaurants	October 7, 2008	October 7, 2014	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.
STARFRUIT	Restaurant services	June 24, 2008	June 24, 2014	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.
GOO-BERRY PIE	Dairy-based beverages; dairy-based food beverages; kefir; soy-based food beverage used as a milk substitute	April 1, 2008	April 1, 2014	Registration is renewable at the time of expiration provided mandatory documents are filed with the USPTO between the 5th and 6th anniversaries of the registration date or the six-month grace period following the sixth anniversary date.

PATENTS, TRADEMARKS, LICENSES, ROYALTY AGREEMENTS

Lifeway also uses the following unregistered trademarks, and claims common law rights to: “Elita,” “Healthy Foods Today for a Better Life Tomorrow,” “Milkshake Smoothie,” “Toplenka,” “White Cheese,” “Drink It to Be Beautiful Inside and Out,” “Golden Zesta” and “Pride of Main Street.”

On December 27, 1990, Lifeway purchased the Tuscan brand-name liquid drinkable yogurt customer list along with a limited license of the trademark and use of the Tuscan liquid yogurt U.P.C. codes from a third party.

In October 1998, Lifeway entered into a sublicense agreement with GalaGen, Inc. and Metagenics, Inc. with an effective date of May 1, 1998 (“Lifeway sublicense”), wherein GalaGen sublicensed patent rights of Metagenics for kefir-based products containing natural immune components exclusively to Lifeway. Under the rights granted to it by the Lifeway sublicense, Lifeway manufactures and sells products using the Basics Plus trademark. GalaGen had acquired the primary license for such patent rights in an agreement executed with Metagenics in April 1998. The terms of the Lifeway sublicense provide that Metagenics will permit Lifeway to continue to have the exclusive patent rights to produce or sell kefir-based products containing natural immune components in the event the original license between GalaGen and Metagenics is terminated, and such termination was not caused by Lifeway. On February 25, 2002, GalaGen filed a petition for bankruptcy in the Unites States Bankruptcy Court, District of Minnesota, which terminated both its primary license with Metagenics and its participation in the Lifeway sublicense. The license and sublicense were excluded from the sale of assets of GalaGen pursuant to an order of the Bankruptcy Court. Lifeway has not received any indication that Metagenics will not permit Lifeway to continue to have the exclusive patent rights to produce or sell kefir-based products containing natural immune components. Thus, Lifeway believes that it continues to have the exclusive patent rights licensed directly from Metagenics. Either party may terminate the license agreement for cause. The term of the license agreement expires when the last valid claim of the patent rights expires, which currently is July 2, 2013, however, this term can be extended in accordance with the terms of the license agreement.

In connection with the purchase of Ilya's Farm, Inc., the Company has undertaken a royalty obligation of 5% of all sales of Ilya's Farm, Inc.'s products, which is paid quarterly, in arrears.

REGULATION

Lifeway is subject to regulation by federal, state and local governmental authorities regarding the distribution and sale of food products. Although Lifeway believes that it currently has all material government permits, licenses, qualifications and approvals for its operations, there can be no assurance that Lifeway will be able to maintain its existing licenses and permits or to obtain any future licenses, permits, qualifications or approvals which may be required for the operation of Lifeway's business.

Lifeway believes that it is currently in compliance with all applicable environmental laws and that the cost of such compliance was not material to the financial position of Lifeway.

In addition, any Lifeway products exported to Canada would be subject to strict quotas imposed by the Trade Control Policy Division of the Department of Foreign Affairs and International Trade of Canada. Lifeway believes that it currently is in compliance with all applicable Canadian regulations. The Company exported no products to Canada in 2009.

RESEARCH AND DEVELOPMENT

Lifeway continues its program of new product development, centered around the nutritional and "low calorie" features of its proprietary kefir formulas.

Lifeway conducts primarily all of its research internally, but at times will employ the services of an outside testing facility. During 2008 and 2009, the amount Lifeway expended for research and new product development was not material to the financial position of Lifeway and no amount was customer supported.

EMPLOYEES

Lifeway currently employs approximately 200 employees, all of whom are full-time employees. Substantially all of these employees are engaged in the manufacturing of the Company's products. None of Lifeway's employees are covered by collective bargaining agreements.

ITEM 1A. *RISK FACTORS.*

Not applicable to smaller reporting company.

ITEM 1B. *UNRESOLVED STAFF COMMENTS.*

None.

ITEM 2. *PROPERTIES.*

On May 16, 1988, Lifeway purchased an approximately 26,000 square foot parcel of real property, including an approximately 8,500 square foot one-story brick building in good condition, located at 7625 N. Austin Avenue, Skokie, Illinois. Lifeway uses this facility for manufacturing and storage and has no plans to improve or renovate this property. Lifeway is the only occupant of this property and presently holds fee simple title free and subject to a mortgage which secures the property as collateral for certain loans to Lifeway from The Private Bank & Trust as discussed in Item 7, Results of Operations, Liquidity and Capital Resources (the "Loans"). The Loans are secured by all of the assets of Lifeway, including a first mortgage on

Lifeway's real property located in Skokie, Illinois, Niles, Illinois and Morton Grove, Illinois. A portion of the proceeds of the Loans was used to pay off previously existing mortgage loans. At December 31, 2009, the Loans had a balance of 7,135,556, and 500,000, respectively. The value of this property may be subject to real estate market forces that typically affect industrial real estate in the area immediately surrounding the property.

On October 16, 1996, Lifeway purchased a 110,000 square foot commercially-zoned parcel of real property, including a 46,000 square foot one-story brick building in good condition, located at 6431 Oakton Avenue, Morton Grove, Illinois. This property is used as Lifeway's corporate headquarters and main manufacturing facility. This property has been improved every year since the time of purchase by the addition of custom-built refrigerated storage space and the addition of various machinery and equipment used to manufacture, package and store Lifeway's products. Lifeway is the only occupant of this property and presently holds fee simple title subject to a mortgage which secures the property as collateral for the Loans discussed above. The value of this property may be subject to real estate market forces that typically affect industrial real estate in the area immediately surrounding the property.

In June 2005, the Company purchased a 100,000-square-foot distribution and warehousing facility that is equipped with 40,000 square feet of refrigeration. The facility, located at 6101 Gross Point Road in Niles, Illinois, will be used to store raw materials and finished goods in order to relieve space pressures at the Company's existing 50,000-square foot building, less than a mile away. The additional space at the Company's main plant will be used to expand production capacity for the Company's kefir and other probiotic products. Lifeway is the only occupant of this property and presently holds fee simple title subject to a mortgage which secures the property as collateral for the Loans discussed above. The value of this property may be subject to real estate market forces that typically affect industrial real estate in the area immediately surrounding the property.

Included in the purchase of Pride of Main Street Dairy on August 3, 2006, Lifeway acquired an approximately 35,000 square foot commercially zoned parcel of real estate located at 214 Main Street S. Sauk Centre, Minnesota, including a 16,000 square foot two-story brick building used for production, and a 5,600 square foot storage facility. This property is used as the main headquarters and main production facility for Pride of Main Street Dairy. The building was built in the 1920's with an addition in 1990. The facility is being used to produce all of the Pride of Main Street Dairy products, and approximately 70% of the Helios Nutrition Organic Kefir, with the remaining 30% being produced in Lifeway's main production facility in Morton Grove, Illinois. Lifeway is the only occupant of this property and presently holds fee simple title subject to negative mortgage pledge as part of the collateral package for the Loans discussed above. The value of this property may be subject to real estate market forces that typically affect industrial real estate in the area immediately surrounding the property.

On February 6, 2009, in connection with the Company's acquisition of Fresh Made, Inc., Lifeway also acquired 1.135 acres of land in Philadelphia. The consideration for this property was $2,000,000. Fresh Made is the only occupier of this property. Lifeway is the only occupant of this property and presently holds fee simple title subject to a negative mortgage pledge as part of the collateral package for the Loans discussed above.

For financial statement and tax purposes, Lifeway depreciates its buildings and improvements on a straight line basis over 31 and 39 years.

Management believes that Lifeway has adequate insurance coverage for all its properties.

ITEM 3. ***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.

PART II

ITEM 5. ***MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.***

MARKET INFORMATION

Lifeway's Common Stock, no par value, the only class of common equity of Lifeway, is traded on The Nasdaq Stock Market National Market System under the symbol "LWAY." Trading commenced on March 29, 1988.

The range of high and low bid quotations for Lifeway's Common Stock for the quarterly periods within the two most recent fiscal years, as reported by The Nasdaq Stock Market National Market System, is set forth in the following table:

	Low Bid	High Bid
First Qtr. 2008	9.25	11.75
Second Qtr. 2008	10.40	14.05
Third Qtr. 2008	9.02	15.48
Fourth Qtr. 2008	5.43	11.89
First Qtr. 2009	6.07	9.72
Second Qtr. 2009	6.57	13.50
Third Qtr. 2009	10.67	14.94
Fourth Qtr. 2009	9.87	12.59

As of March 15, 2010, there were approximately 87 holders of record of Lifeway's Common Stock. The Company has no information regarding beneficial owners whose shares are held in street name.

DIVIDENDS

Lifeway has paid no cash dividends on its Common Stock since inception and management does not anticipate that such dividends will be paid in the foreseeable future.

SALES OF UNREGISTERED SECURITIES

None.

PURCHASES OF THE COMPANY'S SECURITIES

Period	(a) Total Numbers of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1 to October 31, 2009	0			
November 1 to November 30, 2009	0			
December 1 to December 31, 2009	0			
Total	0			

The Company established a share repurchase program approved December 17, 2009 (for 100,000 shares with a plan expiration date of one year). As of the date of this filing, Lifeway has repurchased 28,365 shares of the Company's securities in 2010 pursuant to this program at a total cost of $340,104.71.

EQUITY COMPENSATION PLAN INFORMATION

See Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this Annual Report on Form 10-K for information regarding securities authorized for issuance under our equity compensation plans.

ITEM 6. *SELECTED FINANCIAL DATA.*

Not applicable to smaller reporting company.

ITEM 7. ***MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS .***

RESULTS OF OPERATIONS

The following analysis should be read in conjunction with the audited financial statements of the Company and related notes included elsewhere in this annual report and the unaudited financial statements and Management's Discussion and Analysis contained in our Form 10-QSB, for the fiscal quarters ended March 31, 2009, June 30, 2009, and September 30, 2009.

Comparison of Quarter Ended December 31, 2009 to Quarter Ended December 31, 2008

Sales increased by $3,890,952, (approximately 37%) to $14,466,495 during the three month period ended December 31, 2009 from $10,575,543 during the same three month period in 2008. This increase is primarily attributable to increased sales and awareness of Lifeway's flagship line, Kefir, as well as ProBugs® Organic Kefir for kids. Additionally, Lifeway recorded revenues from its February 6, 2009 acquisition of Fresh Made Dairy. Included in the total group sales was approximately $2,210,000 of revenue related to this acquisition and recorded during the fourth quarter of 2009.

Cost of goods sold as a percentage of sales was approximately 79% during the fourth quarter 2009, compared to about 82% during the same period in 2008. The decrease was primarily attributable to the decreased cost of conventional milk, our largest raw material.

Additionally, as part of Lifeway's growth strategy, the Company increased its product sampling and demonstration activities, couponing, and other promotional activities in the fourth quarter 2009, when compared to the same period in 2008, which has an impact on cost of goods sold. During the fourth quarter 2009, the Company also increased a reserve account for these types of promotional expenses from $75,000 during the fouth quarter 2008 to $250,000 during the fourth quarter of 2009.

Even though the cost of conventional milk was lower in the fourth quarter 2009 compared to the same period a year ago, the cost of organic milk and other organic raw material ingredients increased approximately 10% during this same period. In the fourth quarter 2009, the amount of organic products sold comprised approximately 35% of Lifeway's total sales. These products include Lifeway's Organic Kefir, Lifeway's Organic ProBugs® kids Kefir, and Lifeway's Helios Organic Kefir lines.

Operating expenses as a percentage of sales were approximately 21% during the fourth quarter 2009, compared to about 19% during the same period in 2008. This increase is primarily attributable to a 111% increase in amortization expense, a non cash expense, related to the February 6, 2009 acquisition of Fresh Made Dairy.

Total other expenses for the fourth quarter 2009 were $26,497, compared with total other expenses of $1,252,744 during the same period in 2008. This decrease is primarily attributable to a higher realized loss on the sale of marketable securities, as well as an impairment of marketable securities during the fourth quarter 2008, when compared to the same period in 2009. During the fourth quarter 2009, the Company realized losses in the amount of $4,178 and had no impairment to securities. During the fourth quarter 2008, the Company realized losses in the amount of $587,243 and recognized an impairment to marketable securities in the amount of $687,971. Marketable securities are discussed in Note 5 of the Notes to Consolidated Financial Statements.

Total net income for the group was $119,593, or $.01 per share for the fourth quarter 2009, compared with a net loss of $742,965, or $.04 per share loss in the same period in 2008.

Comparison of Year Ended December 31, 2009 to Year Ended December 31, 2008

Sales for the group increased by $13,654,423 (approximately 31%) to $58,115,878 during the twelve month period ended December 31, 2009 from $44,461,455 during the same twelve month period in 2008. This increase is primarily attributable to increased sales and awareness of Lifeway's flagship line, Kefir, as well as Lifeway's kids Kefir drink, ProBugs®. Additionally, Lifeway recorded revenues from its February 6, 2009 acquisition of Fresh Made Dairy. Included in the total group sales was approximately $7,943,600 of revenue related to this acquisition and recorded during the twelve-month period ended December 31, 2009.

Cost of goods sold as a percentage of sales excluding depreciation expense was approximately 62% in 2009, compared to about 70% in 2008. The decrease was primarily attributable to the decreased cost of conventional milk, our largest raw material, and the cost of transportation and other petroleum based production supplies.

Operating expenses as a percentage of sales was approximately 21% in 2009, compared to about 19% in 2008. This increase is primarily attributable to the increase in professional fees related to the February 6, 2009 acquisition of Fresh Made Dairy and a 112% increased amortization expense, a non cash expense, also related to the Fresh Made Dairy acquisition. Many of the acquisition related professional fees are non recurring expenses. Additionally, selling expenses during 2009 rose 46% from 2008 as the Company increased it marketing and advertising budget during 2009.

Total other expenses for 2009 were $489,716, compared with total other expenses of $1,598,930 during the same period in 2008. This decrease is primarily attributable to a higher realized loss on the sale of marketable securities, as well as an impairment of marketable securities during 2008, when compared to 2009. During 2009, the Company realized losses in the amount of $278,474 and had no impairment to securities. During 2008, the Company realized losses in the amount of $733,647 and recognized an impairment to marketable securities in the amount of $958,879. As of December 31, 2009, the company had unrealized gains on marketable securities of $325,085 (net of tax) compared with unrealized losses as of December 31, 2008 of $720,517 (net of tax).

Provision for income taxes was $2,879,250, or a 34% tax rate in 2009 compared with $679,789 or a 26% tax rate in 2008. Income taxes are discussed in Note 10 of the Notes to Consolidated Financial Statements. The difference in rates was due to a lower level of permanent tax differences in relation to pre-tax net income.

Total net income for the group was $5,569,702, or $.33 per share for the twelve months ended December 31, 2009, compared with $1,912,275, or $.11 per share in the same period in 2008.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash in 2009

On February 6, 2009, Lifeway entered into a Loan and Security Agreement with The Private Bank & Trust (the "Loan Agreement") which provided for (i) a term loan to Lifeway in the principal amount of $7,600,000, due on February 6, 2014 (the Term Loan") with annual interest rate equal to either the London Inter-Bank Offer Rate ("LIBOR"), plus 2.5% or the prime lending rate, and (ii) a revolving line of credit in the principal amount of $5,000,000 (the "Line of Credit," together with the Term Loan, the "Loans"), which originally matured February 6, 2010. The original maturity date was extended to February 6, 2011 on February 6, 2010. The Line of Credit has an annual interest rate equal to either LIBOR, plus 2.5% or the prime lending rate. The Loans are secured by all of the assets of Lifeway, including a first mortgage on Lifeway's real property located in Skokie, Illinois, Niles, Illinois and Morton Grove, Illinois. A portion of the proceeds of the Loans was used to pay off previously existing mortgage loans. At December 31, 2009, the Loans had a balance of $7,135,556, and $500,000, respectively. The Company entered into to a First Modification Agreement to Loan and Security Agreement dated as of August 13, 2009, and a Second Modification Agreement dated November 12, 2009 pursuant to which certain covenants related to allowable capital expense limits and tangible net worth covenants were immaterially relaxed. The First and Second Modification Agreements are filed herewith as Exhibit 10.15 and Exhibit 10.16, respectively.

Net cash provided by operating activities was $7,603,061 during the twelve months ended December 31, 2009, which is an increase of $2,869,401 compared to $4,733,660 of net cash provided by operating activities during the same period in 2008. This increase is primarily attributable to the increase in net income of $3,657,427.

Net cash used in investing activities was $12,037,187 during the twelve months ended December 31, 2009, which is an increase of $9,420,843 when compared to 2008. This increase is primarily due to the Company's acquisition of Fresh Made Dairy of $3,442,546, net of cash acquired. The Company also purchased $1,766,280 worth of property, plant and equipment during 2009 when compared to the purchase of $2,157,315 worth of property, plant in equipment during 2008. This represents a decrease of $391,035 in the purchase of equipment during 2009, when compared to 2008.

Net cash provided by financing activities was $4,787,285 during the twelve months ended December 31, 2009, which is an increase of $7,223,238 compared to $2,435,953 of net cash used in financing activities during the same period in 2008. This increase is primarily attributable to the Company's repayment of $4,003,588 of notes payable during 2009, compared with the Company's repayment of $1,196,465 of notes payable during 2008.

Lifeway had a net increase in cash and cash equivalents of $353,159 during the twelve months ended December 31, 2009, compared to a net decrease in cash and cash equivalents of $318,637 during the same period in 2008. Lifeway had cash and cash equivalents of $630,407 as of December 31, 2009, compared with cash and cash equivalents of $277,248 as of December 31, 2008.

A significant portion of our assets are held in marketable securities. All of our marketable securities are classified as available-for-sale on our balance sheet. All of these securities are stated thereon at market value as of the end of the applicable period. Gains and losses on the portfolio are determined by the specific identification method. Marketable securities are discussed in Note 5 of the Notes to Consolidated Financial Statements.

Assets and Liabilities

Total assets were $51,469,843 as of December 31, 2009, which is an increase of $16,813,627 when compared to December 31, 2008. This is primarily due the Company's acquisition of Fresh Made Dairy, which increased intangible assets by $11,714,447 as of December 31, 2009 when compared to December 31, 2008. Additionally, the value of the Company's property, plant and equipment was $14,282,182 as of December 31, 2009, which is an increase of $3,219,468 from December 31, 2008.

Total current liabilities were $8,563,635 as of December 31, 2009, which is an increase of $4,916,637 when compared to December 31, 2008. This is primarily due the Company's acquisition of Fresh Made Dairy, which increased current maturities of notes payable by $3,913,871 as of December 31, 2009 when compared to December 31, 2008.

Total stockholder's equity was $32,571,330 as of December 31, 2009, which is an increase of $6,277,281 when compared to December 31, 2008. This is primarily due the increase in retained earnings by $5,569,702 as of December 31, 2009 when compared to December 31, 2008.

We anticipate being able to fund the Company's foreseeable liquidity requirements internally. We continue to explore potential acquisition opportunities in our industry in order to boost sales while leveraging our distribution system to consolidate and lower costs.

Other Developments

On May 28, 2009, Lifeway's Board of Directors approved awards of an aggregate amount of 18,000 shares to be awarded under its Employee and Consulting Services and Compensation Plan to certain key employees and consultants for services rendered to the Company. The stock awards were made on May 28, 2009 and have vesting periods of one year. The expense for the awards is measured as of July 14, 2009 at $14.69 per share for 18,000 shares, or a total stock award expense of $264,420. This expense will be recognized as the stock awards vest in 12 equal portions of $22,035, or 1,500 shares per month for one year.

On June 13, 2008, Lifeway's Board of Directors approved awards of an aggregate amount of 10,500 shares to be awarded under its Employee and Consulting Services and Compensation Plan to certain key employees and consultants for services rendered to the Company. The stock awards were made on June 13, 2008 and have vesting periods of one year. The expense for the awards is measured as of July 1, 2007 at $11.87 per share for 10,500 shares, or a total stock award expense of $124,634. This expense will be recognized as the stock awards vest in 12 equal portions of $10,386, or 875 shares per month for one year.

Off-Balance Sheet Arrangements

We have never entered into any off-balance sheet financing arrangements and have never established any special purpose entities. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

Critical Accounting Policies

Lifeway's analysis and discussion of its financial condition and results of operations are based upon its consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. US GAAP provides the framework from which to make these estimates, assumptions and disclosures. Lifeway chooses accounting policies within US GAAP that management believes are appropriate to accurately and fairly report Lifeway's operating results and financial position in a consistent manner. Management regularly assesses these policies in light of current and forecasted economic conditions and has discussed the development and selection of critical accounting policies with its audit committee of the Board of Directors. For further information concerning accounting policies, refer to Note 2 — Nature of Business and Significant Accounting Policies in the notes to the consolidated financial statements.

Subsequent Events

On February 6, 2010 the Company entered into a third modification to its Loan and Security Agreement with the Private Bank and Trust (the "Modification"). This Modification amended the Loan and Security Agreement to, among other things, extend the maturity of the Revolving Loan (as defined therein) to February 6, 2011 and decrease the Revolving Loan (as defined therein) commitment from $5,000,000 to $4,000,000. The foregoing description of the Modification does not purport to be complete and is qualified in its entirety by reference to the complete text of the Modification, which is filed as Exhibit 10.17 hereto and incorporated herein by reference.

Forward Looking Statements

In this report, in reports subsequently filed by Lifeway with the SEC on Form 10-QSB and filed or furnished on Form 8-K, and in related comments by management, our use of the words "believe," "expect," "anticipate," "estimate," "forecast," "objective," "plan," "goal," "project," "explore," "priorities/targets," and similar expressions is intended to identify forward-looking statements. While these statements represent our current judgment on what the future may hold, and we believe these judgments are reasonable, actual results may differ materially due to numerous important factors that are described in this report and other factors that may be described in subsequent reports which Lifeway may file with the SEC on Form 10-QSB and filed or furnished on Form 8-K, including but not limited to:

- Changes in economic conditions, commodity prices;
- Shortages of and price increase for fuel, labor strikes or work stoppages, market acceptance of the Company's new products;
- Significant changes in the competitive environment;
- Changes in laws, regulations, and tax rates; and
- Management's ability to achieve reductions in cost and employment levels, to realize production efficiencies and to implement capital expenditures, all at of the levels and times planned by management.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.*

Not applicable to smaller reporting company.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.*

The annotated consolidated financial statements of the Company that constitute Item 8 of this report commence on the pages that follow this page.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
LIFEWAY FOODS, INC. AND SUBSIDIARIES

We have audited the accompanying consolidated balance sheets of LIFEWAY FOODS, INC. AND SUBSIDIARIES (the “Company”) as of December 31, 2009 and 2008, and the related consolidated statements of income and comprehensive income, changes in stockholders’ equity, and cash flows for each of the two years in the period ended December 31, 2009. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LIFEWAY FOODS, INC. AND SUBSIDIARIES as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

Plante & Moran, PLLC

Grand Rapids, MI
March 31, 2010

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Condition
December 31, 2009 and 2008

	December 31 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 630,407	$ 277,248
Marketable securities	5,044,130	5,262,168
Inventories	3,296,976	3,097,542
Accounts receivable, net of allowance for doubtful accounts of $35,011 and $110,011 at December 31, 2009 and 2008	5,999,738	4,765,865
Prepaid expenses and other current assets	40,697	23,226
Other receivables	49,758	40,314
Deferred income taxes	251,456	919,649
Refundable income taxes	1,308,978	356,416
Total current assets	**16,622,140**	**14,742,428**
Property and equipment, net	**14,282,182**	**11,062,714**
Intangible assets		
Goodwill and other non amortizable brand asset	13,806,091	5,414,858
Other intangible assets, net of accumulated amortization of $1,591,569 and $921,422 at December 31, 2009 and 2008	6,259,430	2,936,216
Total intangible assets	**20,065,521**	**8,351,074**
Other assets	**500,000**	**500,000**
Total assets	**$ 51,469,843**	**$ 34,656,216**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Checks written in excess of bank balances	$ 342,976	$ —
Current maturities of notes payable	4,842,315	928,444
Accounts payable	2,764,000	2,260,272
Accrued expenses	614,344	458,282
Total current liabilities	**8,563,635**	**3,646,998**
Notes payable	**6,890,214**	**3,108,014**
Deferred income taxes	**3,444,664**	**1,607,155**
Total Liabilities	**18,898,513**	**8,362,167**
Stockholders' equity		
Common stock, no par value; 20,000,000 shares authorized; 17,273,776 shares issued; 16,778,555 shares outstanding at December 31, 2009; 17,273,776 shares issued; 16,724,467 shares outstanding at December 31, 2008	6,509,267	6,509,267
Paid-in-capital	1,965,786	1,202,009
Treasury stock, at cost	(3,846,773)	(3,302,025)
Retained earnings	27,953,409	22,383,707
Accumulated other comprehensive loss, net of taxes	(10,359)	(498,909)
Total stockholders' equity	**32,571,330**	**26,294,049**
Total liabilities and stockholders' equity	**$ 51,469,843**	**$ 34,656,216**

See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Income and Comprehensive Income
For the Years Ended December 31, 2009 and 2008

	Year Ended December 31, 2009	Year Ended December 31, 2008
Sales	58,115,878	44,461,455
Cost of goods sold	36,083,553	30,926,114
Depreciation expense	1,134,404	777,715
Total cost of goods sold	37,217,957	31,703,829
Gross profit	**20,897,921**	**12,757,626**
Selling Expenses	5,987,917	4,098,176
General and Administrative	5,294,550	4,149,010
Amortization expense	676,786	319,446
Total Operating Expenses	**11,959,253**	**8,566,632**
Income from operations	**8,938,668**	**4,190,994**
Other income (expense):		
Interest and dividend income	199,047	343,329
Rental Income	35,240	48,886
Interest expense	(442,703)	(298,619)
Impairment of marketable securities	—	(958,879)
Loss on Disposition of Equipment	(2,826)	—
Loss on sale of marketable securities, net	(278,474)	(733,647)
Total other income (Expense)	(489,716)	(1,598,930)
Income before provision for income taxes	**8,448,952**	**2,592,064**
Provision for income taxes	2,879,250	679,789
Net income	**$ 5,569,702**	**$ 1,912,275**
Basic and diluted earnings per common share	0.33	0.11
Weighted average number of shares outstanding	**16,798,164**	**16,765,080**
COMPREHENSIVE INCOME		
Net income	**$ 5,569,702**	**$ 1,912,275**
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on marketable securities (net of tax)	325,086	(720,517)
Less reclassification adjustment for (gains) losses included in net income (net of taxes)	163,464	430,651
Comprehensive income	**$ 6,058,252**	**$ 1,622,409**

See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2009 and 2008

	Common Stock, No Par Value 20,000,000 Shares Authorized		# of Shares of					Accumulated Other Comprehensive	
	# of Shares Issued	# of Shares Outstanding	Treasury Stock	Common Stock	Paid In Capital	Treasury Stock	Retained Earnings	Income (Loss), Net of Tax	Total
Balances at December 31, 2007	**17,273,776**	**16,827,726**	**446,050**	**$6,509,267**	**$1,120,669**	**$(2,078,165)**	**$20,471,432**	**$ (209,043)**	**$25,814,160**
Redemption of stock	—	(112,009)	112,009	—	—	(1,239,488)	—	—	(1,239,488)
Issuance of treasury stock for compensation	—	8,750	(8,750)	—	81,340	15,628	—	—	96,968
Other comprehensive income (loss): Unrealized losses on securities, net of taxes and reclassification adjustment	—	—	—	—	—	—	—	(289,866)	(289,866)
Net income for the year ended December 31, 2008	—	—	—	—	—	—	1,912,275	—	1,912,275
Balances at December 31, 2008	**17,273,776**	**16,724,467**	**549,309**	**$6,509,267**	**$1,202,009**	**$(3,302,025)**	**$22,383,707**	**$ (498,909)**	**$26,294,049**
Redemption of stock	—	(87,991)	87,991	—	—	(905,607)	—	—	(905,607)
Issuance of treasury stock for compensation	—	13,132	(13,132)	—	119,039	25,597	—	—	144,636
Issuance of treasury stock for Fresh Made acquisition	—	128,947	(128,947)	—	644,738	335,262	—	—	980,000
Other comprehensive income (loss): Unrealized gains on securities, net of taxes and reclassification adjustment	—	—	—	—	—	—	—	488,550	488,550
Net income for the year ended December 31, 2009	—	—	—	—	—	—	5,569,702	—	5,569,702
Balances at December 31, 2009	**17,273,776**	**16,778,555**	**495,221**	**$6,509,267**	**$1,965,786**	**$(3,846,773)**	**$27,953,409**	**$ (10,359)**	**$32,571,330**

See accompanying notes to financial statements

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	Years Ended December 31, 2009	Years Ended December 31, 2008
Cash flows from operating activities:		
Net income	**$ 5,569,702**	**$ 1,912,275**
Adjustments to reconcile net income to net cash flows from operating activities, net of acquisition:		
Depreciation and amortization	1,811,190	1,092,995
Loss on sale of marketable securities, net	278,474	733,647
Loss on disposition of assets	2,825	—
Impairment of marketable securities	—	958,879
Deferred income taxes	389,754	(509,386)
Treasury stock issued for compensation	144,636	96,968
Increase (decrease) in allowance for doubtful accounts	(75,000)	70,551
(Increase) decrease in operating assets:		
Accounts receivable	(612,915)	(626,754)
Other receivables	(7,758)	2,797
Inventories	173,419	409,012
Refundable income taxes	(475,635)	(115,536)
Prepaid expenses and other current assets	9,506	(1,973)
Increase in operating liabilities:		
Accounts payable	298,800	665,942
Accrued expenses	96,063	44,243
Net cash provided by operating activities	**7,603,061**	**4,733,660**
Cash flows from investing activities:		
Purchases of marketable securities	(6,156,682)	(5,782,452)
Sale of marketable securities	6,928,321	5,323,423
Increase in margin	—	—
Purchases of property and equipment	(1,766,280)	(2,157,315)
Acquisition of Fresh Made, net of cash acquired	(11,042,546)	—
Net cash used in investing activities	**(12,037,187)**	**(2,616,344)**
Cash flows from financing activities:		
Proceeds of note payable	9,353,504	—
Checks written in excess of bank balances	342,976	
Purchases of treasury stock, net	(905,607)	(1,239,488)
Repayment of notes payable	(4,003,588)	(1,196,465)
Net cash provided by (used in) financing activities	**4,787,285**	**(2,435,953)**
Net increase (decrease) in cash and cash equivalents	**353,159**	**(318,637)**
Cash and cash equivalents at the beginning of the period	277,248	595,885
Cash and cash equivalents at the end of the period	**$ 630,407**	**$ 277,248**

See accompanying notes to financial statements

Note 1 – NATURE OF BUSINESS

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

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

<u>Principles of consolidation</u>
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, LFI Enterprises, Inc., Helios Nutrition, Ltd., Pride of Main Street, L.L.C., Starfruit, L.L.C., Fresh Made, Inc. and Starfruit Franchisor, L.L.C. All significant intercompany accounts and transactions have been eliminated. The financial statements include the results of operations from Fresh Made, Inc from February 6, 2009 through the end of the period (see Note 3).

<u>Use of estimates</u>
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, the valuation of investment securities, the valuation of goodwill, intangible assets and deferred taxes.

<u>Revenue Recognition</u>
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.

<u>Cash and cash equivalents</u>
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.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Accounts receivable
Credit terms are extended to customers in the normal course of business. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral.

Accounts receivable are recorded at invoice amounts, and reduced to their estimated net realizable value by recognition of an allowance for doubtful accounts and net of anticipated discounts. The Company's estimate of the allowance for doubtful accounts is based upon historical experience, its evaluation of the current status 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 are 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.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Property and equipment are 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

Intangible assets

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 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, 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 a 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

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Income taxes

Deferred income taxes arise from temporary differences resulting 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 marketable securities, capitalization of indirect costs for tax purposes, purchase price adjustments, and the recognition of an allowance for doubtful accounts 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 2005 through 2008 tax years. The Company believes that its income tax filing positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded.

The Company's policy for recording interest and penalties associated with audits is to record such items as a component of income before taxes. There were no such items during the periods covered in this report.

Treasury stock

Treasury stock is recorded using the cost method.

Advertising costs

The Company expenses advertising costs as incurred. During the years ended December 31, 2009 and 2008, approximately $1,689,540 and $1,530,207 of such costs respectively, were expensed.

Earning 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 years ended December 31, 2009 and 2008, diluted and basic earnings per share were the same, as the effect of dilutive securities options outstanding was not significant.

Note 3 – ACQUISITION

On February 6, 2009, we completed a Stock Purchase Agreement (the “Stock Agreement”) under which Lifeway purchased all of the issued and outstanding stock (the “Shares”) of Fresh Made, Inc., a Pennsylvania corporation (“Fresh”). The consideration for the Shares was an aggregate of $8,048,000 in cash, a note in the principal amount of $2,735,000, due on February 6, 2011, 128,948 shares of common stock of Lifeway valued at a total of $980,000 (“Lifeway’s Common Stock”), the cancellation of a loan in the principal amount of $265,000. The issuance of Lifeway’s Common Stock was exempted from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Also on February 6, 2009, we entered into and consummated a Real Property Purchase Agreement (the “Real Property Agreement”) under which we acquired 1.1355 acres of land in Philadelphia, PA (the “Property”). The consideration for the Property was approximately $2,000,000.

The acquisition was consummated to expand the geographic footprint of Lifeway as well as grow market share. The acquisition was accounted for using the purchase accounting method of accounting, and accordingly, the purchase price was allocated to assets acquired and the liabilities assumed based on the fair value as of the merger date. Acquisition costs for legal and professional fees have been included in General and Administrative costs. None of the goodwill resulting from the acquisition is tax deductible.

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

Cash and cash equivalents	$	226,000
Accounts receivable (contractual amounts totaling $545,958)		546,000
Other current assets		361,000
Building and other fixed assets		2,617,000
Customer list		4,000,000
Non amortizable goodwill and brand asset		8,391,000
Current liabilities		(461,000)
Deferred tax liability associated with purchase adjustments		(1,652,000)
Total fair value of assets acquired and liabilities assumed	$	14,028,000

The following pro forma disclosures, including the effect of purchase accounting adjustments, depict the results of operations as though the merger with Fresh had taken place as of January 1 for each period presented:

		2009		2008
Gross revenue	$	59,231,461	$	54,559,866
Net income	$	5,618,471	$	2,353,742
Earnings per share	$	0.33	$	0.14

Note 4 – INTANGIBLE ASSETS

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

	December 31, 2009		December 31, 2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Recipes	$ 43,600	$ 43,600	$ 43,600	$ 43,600
Customer lists and other customer related intangibles	4,305,200	587,393	305,200	182,938
Lease acquisition	87,200	67,473	87,200	55,019
Other	6,638	6,638	6,638	4,647
Customer relationship	985,000	280,454	985,000	198,368
Contractual backlog	12,000	12,000	12,000	12,000
Trade names	1,980,000	451,000	1,980,000	319,000
Formula	438,000	149,650	438,000	105,850
	$ 7,857,638	$ 1,598,208	$ 3,857,638	$ 921,422

Amortization expense is expected to be as follows for the years ending December 31:

2010	$ 674,796
2011	674,796
2012	669,615
2013	662,342
2014	662,342
Thereafter	2,915,539
	$ 6,259,430

Amortization expense during the years ended December 31, 2009 and 2008 was $676,786 and $319,446, respectively.

Goodwill and brand assets increased during the year ended December 31, 2009 due to the acquisition of Fresh Made (See Note 3).

Note 5 – MARKETABLE SECURITIES

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

December 31, 2009	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equities	$ 1,385,524	$ 177,024	$ (128,547)	$ 1,434,001
Mutual Funds	172,543	2,438	(22,733)	152,248
Preferred Securities	388,705	6,700	(95,753)	299,652
Corporate Bonds	1,569,245	65,226	(6,772)	1,627,699
Government Agency Obligations	893,755	2,989	(23,134)	873,610
Certificate of Deposits	652,005	5,015	(100)	656,920
Total	$ 5,061,777	$ 259,392	$ (277,039)	$ 5,044,130

Note 5 – MARKETABLE SECURITIES - Continued

December 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equities	$ 2,116,004	$ 75,333	$ (279,487)	$ 1,911,850
Mutual Funds	888,182	202	(339,970)	548,414
Preferred Securities	1,541,423	13,075	(308,963)	1,245,535
Corporate Bonds	783,761	1,559	(19,289)	766,031
Municipal Bonds	4,586	414	---	5,000
Government Agency Obligations	778,140	8,668	(1,470)	785,338
Total	$ 6,112,096	$ 99,251	$ (949,179)	$ 5,262,168

Proceeds from the sale of marketable securities were $6,928,321 and $5,323,423 during the years ended December 31, 2009 and 2008, respectively.

Gross gains of $351,419 and $384,574 and gross losses of $629,893 and $1,118,221 were realized on these sales during the year ended December 31, 2009 and 2008, respectively.

The following table shows the gross unrealized losses and fair value of 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 December 31, 2009 and 2008:

	Less Than 12 Months		12 Months or Greater		Total	
December 31, 2009	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	$ 128,959	$ (27,142)	$ 230,502	$ (101,405)	$ 359,461	$ (128,547)
Mutual Funds	1,694	(221)	131,870	(22,512)	133,564	(22,733)
Preferred Securities	---	---	278,202	(95,753)	278,202	(95,753)
Corporate Bonds	178,874	(3,176)	124,395	(3,596)	303,269	(6,772)
Government Agency Obligations	564,941	(20,096)	161,466	(3,038)	726,407	(23,134)
Certificates of Deposit	99,900	(100)	---	---	99,900	(100)
	$ 974,368	$ (50,735)	$ 926,435	$ (226,304)	$ 1,900,803	$ (277,039)

	Less Than 12 Months		12 Months or Greater		Total	
December 31, 2008	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	$ 733,161	$ (242,055)	$ 65,931	$ (37,432)	$ 799,092	$ (279,487)
Mutual Funds	363,006	(179,941)	86,086	(160,029)	449,092	(339,970)
Preferred Securities	150,722	(28,643)	435,043	(280,320)	585,765	(308,963)
Corporate Bonds	345,302	(18,789)	125,348	(500)	470,650	(19,289)
Government Agency Obligations	168,319	(1,470)	---	---	168,319	(1,470)
	$ 1,760,510	$ (470,898)	$ 712,408	$ (478,281)	$ 2,472,918	$ (949,179)

For the year ended December 31, 2008, we recorded other than temporary impairments related to investments in marketable securities in certain investments of $958,879. The impairments recognized relate to securities that were in an unrealized loss position at December 31, 2008 that were subsequently sold and equity holdings that we consider other than temporarily impaired due to the recent performance of the issuers of those securities.

Note 5 – MARKETABLE SECURITIES - Continued

Equities, Mutual Funds, Corporate Bonds and Government Agency Obligations - The Company's investments in equity securities, mutual funds, corporate bonds and government agency obligations consist of investments in common stock, preferred stock and debt securities of companies in various industries. The Company evaluated the near-term prospects of the issuer in relation to the severity and duration of the impairment. Based on that evaluation and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider any material investments to be other-than-temporarily impaired at December 31, 2009.

Preferred Securities - The Company's investments in preferred securities consist of investments in preferred stock of companies in various industries. The Company evaluated the continuing performance of the securities, the credit worthiness of the issuers as well as the near-term prospects of the security in relation to the severity and duration of the impairment. Based on that evaluation and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider any material investments to be other-than-temporarily impaired at December 31, 2009.

Note 6 – INVENTORIES

Inventories consist of the following:

	December 31,	
	2009	2008
Finished goods	$ 1,101,885	$ 1,343,811
Production supplies	1,367,457	1,291,484
Raw materials	827,634	462,247
Total inventories	$ 3,296,976	$ 3,097,542

Note 7 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31,	
	2009	2008
Land	$ 1,178,160	$ 969,232
Buildings and improvements	10,380,393	7,138,042
Machinery and equipment	12,525,241	8,229,202
Vehicles	961,245	610,558
Office equipment	255,616	180,351
Construction in process	81,608	2,309,045
	25,382,263	19,436,430
Less accumulated depreciation	11,100,081	8,373,716
Total property and equipment	$ 14,282,182	$ 11,062,714

Depreciation expense during the year ended December 31, 2009 and 2008 was $1,134,404 and $777,715, respectively.

Note 8 – ACCRUED EXPENSES

Accrued expenses consist of the following:

	December 31, 2009	December 31, 2008
Accrued payroll and payroll taxes	$ 191,744	$ 98,089
Accrued property tax	306,707	291,819
Other	115,893	68,374
	$ 614,344	$ 458,282

Note 9 – NOTES PAYABLE

Notes payable consist of the following:

	December 31, 2009	December 31, 2008
Mortgage note payable to a bank, payable in monthly installments of $3,273 including interest at 7%, with a balloon payment of $416,825. Collateralized by real estate. Paid in full in 2009.	---	$ 438,926
Mortgage note payable to a bank, payable in monthly installments of $19,513 including interest at 5.6%, with a balloon payment of $2,652,143. Collateralized by real estate. Paid in full in 2009	---	2,760,288
Note payable to Amani Holding LLC, payable in quarterly installments of $262,500 plus interest at the floating prime rate per annum, secured by letter of credit. Paid in full in 2009.	---	837,244
Note payable to Private Bank in monthly installments of $42,222, plus variable interest rate, currently at 2.756%, with a balloon payment of $5,066,667 due February 6, 2014. Collateralized by substantially all assets of the Company.	7,135,556	---
Line of credit with Private Bank at variable interest rate, currently at 2.781%, due on February 6, 2011. Collateralized by substantially all assets of the Company.	500,000	---
Line of credit with Morgan Stanley at variable interest rate, currently at 2.23%. Collateralized by marketable securities.	2,468,151	---
Notes payable to Ilya Mandel & Michael Edelson, subordinated to Private Bank, payable in quarterly installments of $341,875, plus interest at the floating rate per annum (3.25% at December 31, 2009) due February 6, 2011. Collateralized by a mortgage on specific real estate and shares of the Company’s common stock.	1,628,822	---
Total notes payable	11,732,529	4,036,458
Less current maturities	4,842,315	928,444
Total long-term portion	$ 6,890,214	$ 3,108,014

Note 9 – NOTES PAYABLE - Continued

Maturities of notes payables are as follows:

For the Period Ended December 31,		
2010	$	4,842,315
2011		767,986
2012		506,664
2013		506,664
2014		5,108,900
Total	$	11,732,529

Note 10 – PROVISION FOR INCOME TAXES

The provision for income taxes consists of the following:

	For the Years Ended December 31,			
	2009		2008	
Current:				
Federal	$	2,045,904	$	1,005,159
State and local		443,592		184,016
Total current		2,489,496		1,189,175
Deferred		389,754		(509,386)
Provision for income taxes	$	2,879,250	$	679,789

A reconciliation of the provision for income taxes and the income tax computed at the statutory rate is as follows:

	For the Years Ended December 31,			
	2009		2008	
Federal income tax expense computed at the statutory rate	$	2,872,644	$	881,302
State and local tax expense, net		405,550		124,419
Permanent differences		(178,160)		(150,772)
Tax credits and other		(220,784)		(175,160)
Provision for income taxes	$	2,879,250	$	679,789

Note 10 – PROVISION FOR INCOME TAXES - Continued

Amounts for deferred tax assets and liabilities are as follows:

	December 31,	
	2009	2008
Non-current deferred tax assets (liabilities) arising from:		
Temporary differences -		
Accumulated depreciation	$ (2,129,680)	$ (1,607,155)
Purchase accounting adjustments	(1,652,000)	---
Capital loss carry-forwards	337,016	---
Total non-current net deferred tax liabilities	$ (3,444,664)	$ (1,607,155)
Current deferred tax assets arising from:		
Unrealized losses on marketable securities	7,288	351,020
Impairment of marketable securities	59,003	396,017
Inventory	139,730	127,177
Allowance for doubtful accounts and discounts	45,435	45,435
Total current deferred tax assets	251,456	919,649
Net deferred tax liability	$ (1,878,224)	$ (687,506)

Note 11 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and income taxes are as follows:

	For the Years Ended December 31,	
	2009	2008
Interest	$ 419,186	$ 307,620
Income taxes	$ 3,432,228	$ 1,288,428

Note 12 – STOCK AWARD AND STOCK OPTION PLANS

The Company has a registration statement filed with the Securities and Exchange Commission in connection with a Consulting Service Compensation Plan covering up to 1,200,000 of the Company’s common stock shares. Pursuant to such Plan, the Company may issue common stock or options to purchase common stock to certain consultants, service providers, and employees of the Company. The option price, number of shares, grant date, and vesting terms are determined at the discretion of the Company’s Board of Directors.

As of December 31, 2009 and 2008, there were no stock options outstanding or exercisable. There were approximately 940,000 shares available for issuance under the Plan at December 31, 2009.

On May 28, 2009, Lifeway's Board of Directors approved awards of an aggregate amount of 18,000 shares to be awarded under its Employee and Consulting Services and Compensation Plan to certain key employees and consultants for services rendered to the Company. The stock awards were made on May 28, 2009 and have vesting periods of one year. The expense for the awards is measured as of July 14, 2009 at $14.69 per share for 18,000 shares, or a total stock award expense of $264,420. This expense will be recognized as the stock awards vest in 12 equal portions of $22,035, or 1,500 shares per month for one year.

Note 12 – STOCK AWARD AND STOCK OPTION PLANS - Continued

On June 13, 2008, Lifeway's Board of Directors approved awards of an aggregate amount of 10,500 shares to be awarded under its Employee and Consulting Services and Compensation Plan to certain key employees and consultants for services rendered to the Company. The stock awards were made on June 13, 2008 and have vesting periods of one year. The expense for the awards is measured as of July 1, 2008 at $11.87 per share for 10,500 shares, or a total stock award expense of $124,635. This expense will be recognized as the stock awards vest in 12 equal portions of $10,386, or 875 shares per month for one year.

On May 18, 2007, Lifeway's Board of Directors approved awards of an aggregate amount of 8,400 shares to be awarded under its Employee and Consulting Services and Compensation Plan to certain key employees and consultants for services rendered to the Company. The stock awards were made on June 1, 2007 and have vesting periods of one year. The expense for the awards is measured as of June 1, 2007 at $9.90 per share for 8,400 shares, or a total stock award expense of $83,160. This expense will be recognized as the stock awards vest in 12 equal portions of $6,930, or 700 shares per month for one year.

Note 13 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value as the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The standards emphasize that fair value is a market-based measurement, not an entity-specific measurement and establish the following fair value hierarchy used in fair value measurements:

Level 1 – Inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Inputs use other inputs that are observable, either directly or indirectly. These inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company’s assessment of the significance of particular inputs to these fair measurements requires judgment and considers factors specific to each asset or liability.

We carry marketable securities at fair value value based on the above hierarchy (see table below).

Other financial instruments including cash, trade receivables, payables and long-term debt are carried at cost, which approximates fair value.

Note 13 – FAIR VALUE MEASUREMENTS - Continued

Disclosures concerning assets and liabilities measured at fair value are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2009
Assets				
Investment securities- available - for - sale	$ 5,045,816	---	---	$ 5,045,816

Note 14 – RECENT ACCOUNTING PRONOUNCEMENTS

On April 9, 2009, the FASB finalized three FASB Staff Positions (“FSPs”) regarding the accounting treatment for investments including mortgage-backed securities. These FSPs changed the method for determining if an other-than-temporary impairment (“OTTI”) exists and the amount of OTTI to be recorded through an entity’s income statement. The changes brought about by the FSPs provide greater clarity and reflect a more accurate representation of the credit and noncredit components of an OTTI event. The three FSPs are as follows:

- FASB ASC 820-10-65-4, Fair Value Measurements and Disclosures provides guidelines for making fair value measurements that determine fair value when the volume and level of activity for assets or liabilities have significantly decreased and identify transactions that are not orderly.

- FASB ASC 320-10-65, Investments — Debt and Equity Securities provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities.

- FASB ASC 825-10-65, Financial Instruments enhances consistency in financial reporting by increasing the frequency of fair value disclosures.

The adoption of these did not have a material effect on the Company’s results of operations or financial position.

Note 14 – RECENT ACCOUNTING PRONOUNCEMENTS - Continued

In June 2009, FASB issued FASB ASC 810, Consolidation. The objective of FASB ASC 810 is to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. FASB ASC 810 shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company is currently evaluating the impact of the adoption of this standard, but does not expect it have a material effect on the Company's financial position or results of operation.

Note 15 – SUBSEQUENT EVENTS

On February 6, 2010 the Company entered into a third modification to its Loan and Security Agreement with the Private Bank and Trust (the "Modification"). This Modification amended the Loan and Security Agreement to, among other things, extend the maturity of the Revolving Loan (as defined therein) to February 6, 2011 and decrease the Revolving Loan commitment from $5,000,000 to $4,000,000. The foregoing description of the Modification does not purport to be complete and is qualified in its entirety by reference to the complete text of the Modification, which is filed as Exhibit 10.17 hereto and incorporated herein by reference.

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.***

None.

ITEM 9A. ***CONTROLS AND PROCEDURES.***

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure material information required to be disclosed in our reports that 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 our management, including our Chief Executive Officer and Chief Financial and Accounting Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, we recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

As of December 31, 2009, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial and Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial and Accounting Officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of December 31, 2009 in ensuring that information required to be disclosed by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified under the Exchange Act rules and forms due to the material weaknesses described below. As a result, we performed additional analysis and other post-closing procedures to ensure our consolidated financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, management believes the consolidated financial statements included in this Form 10-K fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed 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.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making its assessment of internal control over financial reporting, management used the criteria described in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. In conjunction with our auditors, management identified two material weaknesses in the Company's internal control over financial reporting. A material weakness is a significant deficiency, or a combination of significant deficiencies which when aggregated, results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by employees in the normal course of their assigned functions. As a result of these material weaknesses, we concluded that the Company's internal control over financial reporting was not effective as of December 31, 2009 based on the criteria in Internal Control — Integrated Framework. We are taking steps to address these material weaknesses which could possibly have led to a material misstatement in our financial statements if not detected and corrected.

We have identified material weaknesses in our internal control for financial reporting due to an incomplete and undocumented system for tracking current programs for advertising and sales promotions with current customers. Additionally, there was no requirement to post monthly activity to the Company's general ledger. We have immediately begun creating a system for documenting current programs with customers related to advertising and promotional costs, including analyzing the benefits received from customers. We also plan to take corrective action to improve our review procedures for posting and updating the monthly financial activity.

This Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting, identified in connection with the evaluation required by the Exchange Act, that occurred during this fiscal quarter ended December 31, 2009, which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. ***OTHER INFORMATION.***

None.

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.*

DIRECTORS AND EXECUTIVE OFFICERS.

LUDMILA SMOLYANSKY, 59, was appointed as a Director by the Board to fill a vacancy created by an increase of the maximum number of Directors up to seven and unanimously elected as the Chairperson of the Board in November 2002. For more than 20 years, Mrs. Smolyansky has been the operator of several independent delicatessen, gourmet food distributorship businesses and imported food distributorships. In 2002, prior to the commencement of her tenure as a Director, she was hired by the Company as its General Manager. Mrs. Smolyansky devotes as much time as necessary to the business of the Company and currently holds no other directorships in any other reporting company. Mrs. Smolyansky is the mother of Julie Smolyansky (the President, Chief Executive Officer, and a Director of the Company) and Edward P. Smolyansky (the Company Treasurer and Chief Financial and Accounting Officer). Mrs. Smolyansky brings many years of food industry experience to the Board.

JULIE SMOLYANSKY, 34, was appointed as a Director, and elected President, CEO, CFO and Treasurer of the Company by the Board of Directors to fill the vacancies in those positions created by the death of her father, Michael Smolyansky, in June 2002. She is a graduate with a Bachelor's degree from the University of Illinois at Chicago. Prior to her appointment, Ms. Smolyansky spent six years as the Company's Director of Sales and Marketing. She devotes as much time as necessary to the business of the Company and currently holds no other directorships in any other reporting company. Ms. Smolyansky is the daughter of Ludmila Smolyansky, the Chairperson of the Board. In 2004, Ms. Smolyansky resigned as CFO and Treasurer and Edward Smolyansky, Ms. Smolyansky's brother, was appointed to such positions. Ms. Smolyansky brings historical and operational expertise and experience to the Board.

POL SIKAR, 61, has been a Director of the Company since its inception in February 1986. He is a graduate with a Master's degree from the Odessa State Institute of Civil Engineering in Russia. For more than 12 years, he has been President and a major shareholder of Montrose Glass & Mirror Co., a company providing glass and mirror products to the wholesale and retail trade in the greater Chicago area. Mr. Sikar devotes as much time as necessary to the business of the Company. Mr. Sikar holds no other directorships in any other reporting company. Mr. Sikar has been a Director since inception and brings a histroical perspective to the Board.

RENZO BERNARDI, 57, has been a Director of the Company since 1994. Mr. Bernardi is the president and founder of Renzo & Sons, Inc., a Dairy and Food Service Company which has been in business since 1969 (formerly, Renzo-Milk Distribution Systems). He has over 30 years of experience in the dairy distribution industry. Mr. Bernardi is a graduate of Instituto Teonico E Commerciale of Macomer, Sardinia. Mr. Bernardi devotes as much time as necessary to the business of the Company. Mr. Bernardi holds no other directorships in any other reporting company. Mr. Bernardi brings deep industry experience to the Board.

GUSTAVO CARLOS VALLE, 45, has been a Director of the Company since June 19, 2009. He is an Argentine citizen and was appointed President and CEO of the Dannon Company, Inc. effective April 1, 2009. Mr. Valle joined Danone Argentina in 1996 as Vice President Finance where he became CEO of Danone Waters Argentina in 2002. Two years later, he was appointed CEO of Danone Brazil. Mr. Valle graduated in Economics from Buenos Aires University in Argentina. Mr. Valle holds no other directorships in any other reporting company. Mr. Valle has been designated by DS Waters LP (as the related successor to The Dannon Company, Inc.) to be its representative to the Board in accordance with the terms of that certain Stockholder's Agreement, as amended, between the Company and Dannon. Mr. Valle brings deep indistry experience to the Board.

JULIE OBERWEIS, 35, has served as a director of the Company since June 2006. She is the co-founder and CFO of Stratigent, LLC, a web analytics consulting company. Prior to Stratigent, she worked in investment consulting at Cambridge Associates as well as at Ritchie Capital Management, L.L.C., a global alternative asset management firm. She currently sits on the board of Oberweis Group, Inc., the holding company of Oberweis Dairy, and the DuPage Childrens Museum. Julie holds a degree in finance from the University of Illinois and is a Chartered Financial Analyst (CFA) charterholder. Ms Oberweis brings to the Board financial and accounting experience, as well as industry experience.

EDWARD P. SMOLYANSKY, 30, was appointed as Chief Financial and Accounting Officer and Treasurer of Lifeway in November 2004. He had served as the Controller of the Company June 2002 until such time. He received his baccalaureate degree in finance from Loyola University of Chicago in December 2001. Edward P. Smolyansky is the brother of Company President and CEO Julie Smolyansky and the son of Lifeway's Chairperson of the Board, Ludmila Smolyansky.

KEY EMPLOYEES.

VALERIY NIKOLENKO, 64, Vice President of Operations, has been VP of Operations for 13 years with Lifeway Foods.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities and Exchange Act of 1934 requires the Company's officers and Directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Officers, directors, and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based solely on its review of copies of such reports received or representations from certain reporting persons, the Company believes that, during the year ended December 31, 2009, other than the two filings listed below, all other Section 16(a) filing requirements applicable to its officers, Directors and 10% shareholders were timely met. That filing was: (1) Edward Smolyansky reported one transaction on one Form 4 late, and (2) Renzo Bernardi reported one transaction on one Form 4 late.

FAMILY RELATIONSHIPS

Julie Smolyansky, the President, CEO and director of Lifeway is the daughter of Ludmila Smolyansky, Chairperson of the Board of Directors of Lifeway and the sister of Edward P. Smolyansky. Edward P. Smolyansky, the Chief Financial and Accounting Officer and Treasurer of Lifeway is the son of Ludmila Smolyansky and the brother of Julie Smolyansky.

CODE OF ETHICS

The Company has adopted a Code of Ethics applicable to all officers which is included in this report as an exhibit hereto. Any person may, without charge, request a copy of such Code of Ethics by contacting the Company at 847-967-1010 or by email at info@lifeway.net.

CORPORATE GOVERNANCE

The Board does not have any formal policy regarding the consideration of director candidates recommended by shareholders; any recommendation would be considered on an individual basis. The Board believes this is appropriate due to the lack of such recommendations made in the past, and its ability to consider the establishment of such a policy in the event of an increase of such recommendations. Accordingly, there have been no material changes to the procedure by which any security holder may recommend nominees to the Board.

The Company's Audit Committee consists of Mr. Sikar and Ms. Oberweis, each of whom has an understanding of finance and accounting and is able to read and understand fundamental financial statements. Audit Committee members are appointed by the full Board. The functions of the Audit Committee are to review the Company's internal controls, accounting policies and financial reporting practices; to review the financial statements, the arrangements for and scope of the independent audit, as well as the results of the audit engagement; to review the services and fees of the independent auditors, including pre-approval of non-audit services and the auditors' independence; and to recommend to the Board of Directors for its approval and for ratification by the shareholders the engagement of the independent auditors to serve the following year in examining the accounts of the Company. No member of the Audit Committee is a "financial expert," as defined in Item 407(d)(5)(ii) of Regulation S-K promulgated by the SEC. The Board examined the qualifications of its Audit Committee members and determined that the present members of the Audit Committee, based on their prior education and professional experience, were sufficiently capable of performing the duties of the Audit Committee in 2009 without being "financial experts" within such definition.

ITEM 11. *EXECUTIVE COMPENSATION.*

Summary Compensation Table as of December 31, 2008 and December 31, 2009

Name	Year	Salary	Bonus	Stock Awards	All other Comp. (5)	Total
Julie Smolyansky, CEO and President(1)	2009 2008	$390,153 247,038	$50,000 20,000	$84,762 42,050	16,926 20,288	$541,841 329,376
Edward P. Smolyansky, CFO Chief Accounting Officer and Treasurer (2)	2009 2008	$467,153 276,884	$50,000 40,000	$84,762 42,050	$19,632 11,900	$621,547 370,831
Ludmila Smolyansky, Chairman (3)	2009 2008	$359,926 190,076	$60,000 50,000	— —	$8,700 8,400	$428,626 248,476
Val Nikolenko, Vice President of Operations and Secretary (4)	2009 2008	$124,602 114,035	$20,000 12,000	$8,476 5,030	$15,664 14,021	$168,742 145,086

<u>NOTES TO SUMMARY COMPENSATION TABLE</u>

(1) The Board appointed Julie Smolyansky as the CEO, CFO, President and Treasurer of the Company on June 10, 2002. From September 21, 1998 until such appointments, she had been Director of Sales and Marketing of the Company. Since November 2004, Ms. Smolyansky has served solely as CEO and President.

(2) The Board appointed Edward Smolyansky as the CFO, Chief Accounting Officer and Treasurer of the Company in November 2004.

(3) The Company approves, on an annual basis, the payment to Ludmila Smolyansky of salary and bonus as other compensation for continuing advisory services to the Company and in light of her extensive experience. Ludmila Smolyansky devotes as much time as necessary to the business of the Company.

(4) The Board appointed Val Nikolenko as the Vice President of Operations and Secretary of the Company in December 1993.

(5) Represents (i) the Company's portion of the matching contributions to the Company's 401(k) plan on behalf of the Named Executive Officer, Julie Smolyansky ($0 for 2009 and $4,500 for 2008); Edward Smolyansky ($8,700 for 2009 and $8,100 for 2008); Val Nikolenko ($5,784 for 2009 and $5,041 for 2008) and (ii) the following amounts related to personal usage of automobiles leased by the Company, and related insurance and fuel, for 2008 and 2009, (x) for Julie Smolyansky, $13,126 for 2009 and $11,988 for 2008 of lease payments, $2,000 for 2009 and $2,000 for 2008 of insurance premiums and $1,800 for 2009 and $1,800 for 2008 of fuel, (y) for Edward Smolyansky, $7,132 for 2009 of lease payments,$2,000 for 2009 and $2,000 for 2008 of insurance premiums and $1,800 for 2009 and $1,800 for 2008 of fuel, and (z) for Val Nikolenko, $7,080 for 2009 and $7,080 for 2008 of lease payments, $1,000 for 2009 and $1,000 for 2008 of insurance premiums and $1,800 for 2009 and $1,800 for 2008 of fuel.

The Company does not maintain any formal bonus or cash incentive plans or arrangements. However, the Board determines bonus awards, if any, on an annual basis for other persons.

Julie Smolyansky has an employment agreement (the "Employment Agreement") with the Company pursuant to which she serves as Chief Executive Officer. Pursuant to the Employment Agreement, Ms. Smolyansky is entitled to an annual base salary and an annual bonus subject to such incentive bonus targets and plans which the Company may adopt from time to time. The Company has not currently set any such targets in advance or adopted any such plans. In lieu thereof, the Board of Directors determines Ms. Smolyansky's salary and bonus on an annual basis concurrently with determining amounts for other executive officers. In the event that (a) Ms. Smolyansky is terminated other than for Cause (as defined therein) or (b) Ms. Smolyansky terminates her employment for Good Reason (as defined therein) or death, then Ms. Smolyansky is entitled to a lump sum payment consisting of (y) twice her then-current base salary and (z) the aggregate of the annual bonus for which she is then eligible under the Employment Agreement and any such plans.

There are no employment agreements with other executive officers (written or unwritten).

Outstanding Equity Awards At December 31, 2009

	Stock Awards	
Name	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested
Julie Smolyansky	3,750	$44,550
Edward Smolyansky	3,750	$44,500
Ludmila Smolyansky	—	—
Val Nikolenko	375	$4,455

On June 9, 1995, the Company filed a registration statement on Form S-8 with the Securities and Exchange Commission in connection with the "Lifeway Foods, Inc. Consulting and Services Compensation Plan" (the "Plan") covering 1,200,000, as adjusted, shares of its Common Stock. The Plan was adopted by the Company on June 5, 1995. Pursuant to such Plan, the Company may issue common stock or options to purchase common stock to certain consultants, service providers, and employees of the Company. There were a total of approximately 940,000 shares eligible for issuance under the Plan at December 31, 2009. The option price, number of shares, grant date, and vesting terms are determined at the discretion of the Company's Board of Directors.

As of December 31, 2009, there were no stock options outstanding or exercisable.

On May 28, 2009, Lifeway's Board of Directors approved awards of an aggregate amount of 18,000 shares to be awarded under its Employee and Consulting Services and Compensation Plan to certain key employees and consultants for services rendered to the Company. The stock awards were made on May 28, 2009 and have vesting periods of one year. The expense for the awards is measured as of July 14, 2009 at $14.69 per share for 18,000 shares, or a total stock award expense of $264,420. This expense will be recognized as the stock awards vest in 12 equal portions of $22,035, or 1500 shares per month for one year.

Director Compensation as of December 31, 2009

Name	**Fees Earned or Paid in Cash**	**Total**
Pol Sikar	$2,000	$2,000
Renzo Bernardi	$2,000	$2,000
Julie Oberweis	$2,000	$2,000

During 2009, each outside (non-employee) director was compensated at the rate of $500 per non-annual meeting attended. Neither any employee director (Ludmila Smolyansky and Julie Smolyansky) nor any Director serving as the nominee of Danone (Juan Carlos Dalto or Gustavo Carlos Valle) was compensated as a Director during 2009.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.***

Equity Compensation Plan Information

Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))**
	(a)	**(b)**	**(c)**
Equity compensation plans approved by security holders	0	$0	940,000
Equity compensation plans not approved by security holders	0	$0	
Total	0	$0	

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*All of Lifeway's equity compensation plans have been approved by its shareholders.

The following table sets forth certain information known to the Company regarding the beneficial ownership of the Company's Common Stock, the Company's only outstanding class of securities, as of March 1, 2010 by (a) each shareholder known by the Company to be the beneficial owner of more than five percent of the Company's Common Stock, (b) each of the Company's directors, (c) each of the Company's executive officers named in the Summary Compensation Table above and (d) all executive officers and directors of the Company as a group. The shareholders listed below have sole voting and investment power except as noted.

Name and Address of Beneficial Owner(1)	**Amount and Nature of Beneficial Ownership**	**Percent of Class(2)**
Ludmila Smolyansky(3)	7,520,354	44.8%
Julie Smolyansky(3)	538,060	3.21%
Edward Smolyansky(3)	341,046	2.03%
Pol Sikar(3)	3,000	*
Renzo Bernardi(3)	14,900	*
Gustavo Carlos Valle (3,4)	0	*
Julie Oberweis(3)	0	*
Val Nikolenko	5,000	*
All Directors and Officers of the Company as a Group (Eight persons in total)	8,422,360	50.2%
DS Waters, LP	3,454,756	20.6%

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*Less than .01%.

NOTES TO BENEFICIAL OWNERSHIP TABLE

(1) With the exception of Gustavo Carlos Valle and DS Waters, LP, the address for all Directors and shareholders listed in this table is 6431 Oakton St., Morton Grove, IL 60053. The address Gustavo Carlos Valle and DS Waters, LP is 100 Hillside Avenue, White Plains, NY 10603-2861.

(2) Based upon 16,753,190 shares of Common Stock outstanding as of March 1, 2010.

(3) A director or officer of the Company.

(4) Mr. Valle is also an officer of the Dannon Company, Inc., which is an affiliate of DS Waters, LP.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.*

Related Transactions

Based on a review of the questionnaires that our directors and employees subject to Section 16 of the Exchange Act of 1934 completed and a review of our internal records on any related person that were identified in such questionnaires, we have determined that there are no related party transactions in excess of the lesser $120,000 or 1% of the average of the Company's total assets for each of 2008 and 2009, since the beginning of 2008 or currently proposed, involving the Company.

Director Independence

In evaluating director independence, the Company has adopted the definition set forth in Rule 4200 of the NASDAQ Marketplace Rules. The Company's board of directors, taking into consideration the relationships described in the Certain Relationships and Related Transactions section above, has determined that of the Company's current directors, Pol Sikar, Renzo Bernardi, and Julie Oberweis were independent of management. The Company's board of directors has also determined that of the individuals who served as directors during 2009, Pol Sikar, Renzo Bernardi, and Julie Oberweis were independent of management.

The Board of Directors does not have a standing nominating committee, compensation committee or any committees performing similar functions. As there are only six Directors serving on the Board, it is the view of the Board that all Directors should participate in the process for the nomination and review of potential Director candidates and for the review of the Company's executive pay practices. Accordingly, Julie Smolyansky, Ludmila Smolyansky and Gustavo Carlos Valle, who are not considered independent, participate in the nominating process, in the review of executive employment contracts and in review of the Company's executive compensation practices, together with the independent directors.

ITEM 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES.*

AUDIT FEES

In 2009 and 2008, Plante & Moran, PLLC, billed Lifeway approximately $177,536 and $153,550, respectively, for professional services rendered for the audit of Lifeway's annual financial statements and review of financial statements included in Lifeway's Forms 10-Q or services that are normally provided in connection with statutory and regulatory filings or engagements in 2008 and 2009.

AUDIT-RELATED FEES

None.

TAX FEES

No professional services were rendered by Plante & Moran, PLLC to Lifeway regarding tax advice, tax compliance and tax planning during 2008 and 2009.

ALL OTHER FEES

No other fees were billed to Lifeway by Plante & Moran, PLLC during 2008 and 2009 other than those described in this report.

No hours expended by Plante & Moran, PLLC in its engagement to audit Lifeway's financial statements for the most recent fiscal year were attributable to work performed by persons other than Plante's full-time permanent employees. The Audit Committee has approved 100% of all services performed by Plante for Lifeway and disclosed above.

AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

The Lifeway Audit Committee (the "Committee"), comprised of Messrs. Julie Oberweis, Pol Sikar and Renzo Bernardi, pre-approved Plante & Moran, PLLC as the Company's independent auditor for the year-ended December 31, 2009 and has adopted the following guidelines regarding the engagement of the Company's independent auditor to perform services for the Company:

For audit services (including statutory audit engagements as required under local country laws), the independent auditor will provide the Committee with an engagement letter during the January-March quarter of each year outlining the scope of the audit services proposed to be performed during the fiscal year. If agreed to by the Committee, this engagement letter will be formally accepted by the Committee at its first or second quarter meeting.

The independent auditor will submit to the Committee for approval an audit services fee proposal after acceptance of the engagement letter.

For non-audit services, the Company's management will submit to the Committee for approval (during the second or third quarter of each fiscal year) the list of non-audit services that it recommends the Committee engage the independent auditor to provide for the fiscal year. Company management and the independent auditor will each confirm to the Committee that each non-audit service on the list is permissible under all applicable legal requirements. In addition to the list of planned non-audit services, a budget estimating non-audit service spending for the fiscal year will be provided. The Committee will approve both the list of permissible non-audit services and the budget for such services. The Committee will be informed routinely as to the non-audit services actually provided by the independent auditor pursuant to this pre-approval process.

To ensure prompt handling of unexpected matters, the Committee delegates to either member thereof the authority to amend or modify the list of approved permissible non-audit services and fees. Either member will report action taken to the Committee at the next Committee meeting.

The independent auditor must ensure that all audit and non-audit services provided to the Company have been approved by the Committee. The Chief Financial Officer will be responsible for tracking all independent auditor fees against the budget for such services and report at least annually to the Committee.

PART IV

ITEM 15. ***EXHIBITS, FINANCIAL STATEMENT SCHEDULES.***

A list of the Financial Statements and Financial Statement Schedules filed as part of this Report is set forth in Item 8, which list is incorporated herein by reference.

EXHIBITS

2.1 Stock Purchase Agreement dated February 6, 2009 by and among Lifeway Foods, Inc., Iyla Mandel and Michael Edelson (incorporated by reference to Exhibit 2.1 of Lifeway's Current Report on Form 8-K dated February 6, 2009 and filed February 13, 2009). (File No. 000-17363)

2.2 Real Property Agreement dated February 6, 2009 by and among Lifeway Foods, Inc., Ilya Mandel and Michael Edelson (incorporated by reference to Exhibit 2.2 of Lifeway's Current Report on Form 8-K dated February 6, 2009 and filed on February 13, 2009). (File No. 000-17363)

3.1 Amended and Restated By-laws (incorporated by reference to Exhibit No. 3.5 of Lifeway's Current Report on Form 8-K dated and filed on December 10, 2002). (File No. 000-17363)

3.2 Articles of Incorporation, as amended and currently in effect (incorporated by reference to Exhibit 3.5 of Lifeway's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2000 and filed on August 8, 2000). (File No. 000-17363)

4.1 Revolving Note dated February 6, 2009 (incorporated by reference to Exhibit 10.2 on Lifeway's Current Report on Form 8-K dated February 6, 2009 and filed on February 13, 2009). (File No. 000- 17363)

4.2 Term Note dated February 6, 2009 (incorporated by reference to Exhibit 10.3 on Lifeway's Current Report on Form 8-K dated February 6, 2009 and filed on February 13, 2009). (File No. 000-17363)

10.1 Lifeway Foods, Inc. Consulting and Services Compensation Plan, dated June 5, 1995 (incorporated by reference to Lifeway's Registration Statement on Form S-8, File No. 33-93306).

10.2 Stock Purchase Agreement dated October 1, 1999 by and among Danone Foods, Inc., Lifeway Foods, Inc., Michael Smolyansky and certain other parties (incorporated by reference to Exhibit 10.10 of Lifeway's Current Report on Form 8-K dated October 1, 1999, and filed October 12, 1999). (File No. 000-17363)

10.3 Stockholders' Agreement dated October 1, 1999 by and among Danone Foods, Inc., Lifeway Foods, Inc., Michael Smolyansky and certain other parties (incorporated by reference to Exhibit 10.11 of Lifeway's Current Report on Form 8-K dated October 1, 1999, and filed October 12, 1999). (File No. 000-17363)

10.4 Letter Agreement dated December 24, 1999 (amending original Stockholders' Agreement with Danone Foods, Inc.) (incorporated by reference to Exhibit 10.12 of Lifeway's Current Report on Form 8-K dated December 24, 1999, and filed January 12, 2000). (File No. 000-17363)

10.5 Employment Agreement, dated September 12, 2002, between Lifeway Foods, Inc. and Julie Smolyansky (incorporated by reference to Exhibit 10.14 of Amendment No. 2 filed April 30, 2003 to Lifeway's Quarterly Report on Form 10-QSB/A for the quarter ended September 30, 2002). (File No. 000-17363)

10.6 First Extension to Stockholders' Agreement dated October 1, 2004 by and among Danone Foods, Inc., Lifeway Foods, Inc., and certain other parties (incorporated by reference to Exhibit 10.1 of Lifeway's Current Report on Form 8-K dated October 1, 2004, and filed October 18, 2004). (File No. 000-17363)

10.7 Second Extension to Stockholders' Agreement by and among Danone Foods, Inc., Lifeway Foods, Inc., and certain other parties dated October 29, 2004 (incorporated by reference to Exhibit 10.1 of Lifeway's Current Report on Form 8-K dated October 29, 2004, and filed November 4, 2004). (File No. 000-17363)

10.8 Third Extension to Stockholders' Agreement by and among Danone Foods, Inc., Lifeway Foods, Inc., and certain other parties dated December 24, 2004 (incorporated by reference to Exhibit 10.1 of Lifeway's Current Report on Form 8-K dated December 24, 2004, and filed December 27, 2004). (File No. 000-17363)

10.9 Fourth Extension to Stockholders' Agreement, dated May 3, 2006, between Lifeway Foods, Inc. and DS Waters, L.P. (incorporated by reference to Exhibit 99.1 of Lifeway's Current Report on Form 8-K dated April 28, 2006 and filed on May 5, 2006). (File No. 0-17363)

10.10	Fifth Extension to Stockholders' Agreement, dated December 26, 2006, between Lifeway Foods, Inc. and DS Waters, L.P. (incorporated by reference to Exhibit 10.1 of Lifeway's Current Report on Form 8-K dated January 3, 2007 and filed on January 3, 2007). (File No. 000-17363)
10.11	Sixth Extension to Stockholders' Agreement, dated December 31, 2007, between Lifeway Foods, Inc. and DS Waters, L.P. (incorporated by reference to Exhibit 10.1 of Lifeway's Current Report on Form 8-K dated December 31, 2007 and filed on January 3, 2008). (File No. 000-17363)
10.12	Seventh Extension to Stockholders' Agreement, dated January 15, 2009, between Lifeway Foods, Inc. and DS Waters, L.P. (incorporated by reference to Exhibit 10.1 of Lifeway's Current Report on Form 8-K dated January 15, 2009 and filed on January 16, 2009). (File No. 000-17363)
10.13	Eigth Extension to Stockholders' Agreement, dated December 31, 2009, between Lifeway Foods, Inc. and DS Waters, L.P. (incorporated by reference to Exhibit 10.1 of Lifeway's Current Report on Form 8-K dated December 31, 2009 and filed on January 26, 2010). (File No. 000-17363)
10.14	Loan and Security Agreement dated February 6, 2009 by and among Lifeway Foods, Inc., Fresh Made, Inc., LFI Enterprises, Inc., Helios Nutrition Limited, Pride Main Street Dairy, LLC and Starfruit, LLC and The Private Bank and Trust Company (incorporated by reference to Exhibit 10.1 of Lifeway's Current Report on Form 8-K dated February 6, 2009 and filed on February 13, 2009). (File No. 000- 17363)
10.15	First Modification Agreement dated August 13, 2009 by and among The PrivateBank and Trust Company, Lifeway Foods, Inc., Fresh Made, Inc., Helios Nutrition Limited, Pride of Main Street Dairy, LLC and Starfruit, LLC
10.16	Second Modification Agreement dated November 12, 2009 by and among The PrivateBank and Trust Company, Lifeway Foods, Inc., Fresh Made, Inc., Helios Nutrition Limited, Pride of Main Street Dairy, LLC and Starfruit, LLC
10.17	Third Modification Agreement dated February 6, 2010 by and among The PrivateBank and Trust Company, Lifeway Foods, Inc., Fresh Made, Inc., Helios Nutrition Limited, Pride of Main Street Dairy, LLC and Starfruit, LLC
11	Statement re: computation of per share earnings. (Incorporated by reference to Note 2 of the Consolidated Financial Statements).
14	Code of Ethics (incorporated by reference to Exhibit 14 on Lifeway's Annual Report on Form 10-KSB for the year ended December 31, 2007 and filed on March 31, 2008). (File No. 000-17363).
21	List of Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-14(a)/15d-14(a) Certification of Julie Smolyansky
31.2	Rule 13a-14(a)/15d-14(a) Certification of Edward P. Smolyansky
32.1	Section 1350 Certification of Julie Smolyansky
32.2	Section 1350 Certification of Edward P. Smolyansky
99.1	Press Release

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 31, 2010	By: /s/ Julie Smolyansky Julie Smolyansky Chief Executive Officer, President, and Director
Date: March 31, 2010	By: /s/ Edward P. Smolyansky Edward P. Smolyansky Chief Financial and Accounting Officer and Treasurer

KNOW ALL MEN BY THESE PRESENTS, that each individual whose signature appears below hereby constitutes and appoints Julie Smolyansky and Edward P. Smolyansky, and each of them individually, his or her true and lawful agent, proxy and attorney-in-fact, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to (i) act on, sign and file with the Securities and Exchange Commission any and all amendments to this Report together with all schedules and exhibits thereto, (ii) act on, sign and file with the Securities and Exchange Commission any and all exhibits to this Report and any and all exhibits and schedules thereto, (iii) act on, sign and file any and all such certificates, notices, communications, reports, instruments, agreements and other documents as may be necessary or appropriate in connection therewith and (iv) take any and all such actions which may be necessary or appropriate in connection therewith, granting unto such agents, proxies and attorneys-in-fact, and each of them individually, full power and authority to do and perform each and every act and thing necessary or appropriate to be done, as fully for all intents and purposes as he or she might or could do in person, and hereby approving, ratifying and confirming all that such agents, proxies and attorneys-in-fact, any of them or any of his, her or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 31, 2010	/s/ Julie Smolyansky Julie Smolyansky Chief Executive Officer, President, and Director
Date: March 31, 2010	/s/ Ludmila Smolyansky Ludmila Smolyansky Chairperson of the Board of Directors
Date: March 31, 2010	Pol Sikar Director
Date: March , 2010	Gustavo Carlos Valle Director
Date: March 31, 2010	/s/ Renzo Bernardi Renzo Bernardi Director
Date: March 31, 2010	/s/ Julie Oberweis Julie Oberweis Director

INDEX OF EXHIBITS

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11 Statement re: computation of per share earnings. (Incorporated by reference to Note 2 of the Consolidated Financial Statements).

14 Code of Ethics (incorporated by reference to Exhibit 14 on Lifeway's Annual Report on Form 10-KSB for the year ended December 31, 2007 and filed on March 31, 2008). (File No. 000-17363).

21 List of Subsidiaries of the Registrant

23.1 Consent of Independent Registered Public Accounting Firm

31.1 Rule 13a-14(a)/15d-14(a) Certification of Julie Smolyansky

31.2 Rule 13a-14(a)/15d-14(a) Certification of Edward P. Smolyansky

32.1 Section 1350 Certification of Julie Smolyansky

32.2 Section 1350 Certification of Edward P. Smolyansky

99.1 Press Release

EXHIBIT 10.15

First Modification Agreement

August 13, 2009

Lifeway Foods, Inc.
Fresh Made, Inc.
Helios Nutrition Limited
Pride of Main Street Dairy, LLC
StarFruit, LLC
c/o 6431 W. Oakton Street
Morton Grove, Illinois 60053
Attention: Edward Smolyansky

Re: Modification of that certain LOAN AND SECURITY AGREEMENT dated as of February 6, 2009 (the **"Agreement"),** by and between LIFEWAY FOODS, INC., an Illinois corporation **("Lifeway"),** FRESH MADE, INC., a Pennsylvania corporation ("FMI"), LFI ENTERPRISES, INC., an Illinois corporation now dissolved ("LFI"), HELIOS NUTRITION LIMITED, a Minnesota corporation **("Helios"),** PRIDE OF MAIN STREET DAIRY, LLC, a Minnesota limited liability company **("Pride")** and STARFRUIT, LLC, an Illinois limited liability company **("Starfruit"),** and THE PRIVATEBANK AND TRUST COMPANY (the **"Bank").** Lifeway, FMI, Helios, Pride and Starfruit are hereinafter sometimes individually referred to as a **"Borrower"** and collectively as the **"Borrowers."** Capitalized terms used herein which are not defined shall have the meanings ascribed to them in the Agreement.

Dear Mr. Smolyansky:

The Borrowers have requested that the Bank waive the Borrowers' compliance with Section 10.1 of the Agreement for certain measurement periods and amend Section 10.1 of the Agreement as hereinafter provided. The Bank has agreed to such waivers and amendments subject to the following:

1. Except as expressly provided in this First Modification Agreement, all terms and conditions of the Agreement and Loan Documents shall remain in full force and effect, without modification or limitation, and are hereby ratified and confirmed in all respects.

2. All representations, warranties and covenants contained in the Agreement and Loan Documents are hereby reconfirmed as of the date hereof (other than those representations and warranties related to LFI which has previously been liquidated and dissolved).

3. From and after the date hereof, Section 10.1 of the Agreement is hereby amended and restated in its entirety as follows:

> 10.1 Tangible Net Worth As of the end of each of its fiscal quarters (commencing the fiscal quarter ending June 30, 2009), the Borrowers and their Subsidiaries shall maintain consolidated Tangible Net Worth in an amount not less than Seven Million Five Hundred Thousand and 00/100 Dollars ($7,500,000.00), plus thirty percent (30.00%) of the aggregate consolidated fiscal year to date Net Income earned by the Borrowers and their Subsidiaries during all previous fiscal years (commencing with the fiscal year ending on December 31, 2009), provided, however, that net losses incurred in any fiscal year of the Borrowers or its Subsidiaries shall not be subtracted in the determination of the Tangible Net Worth requirement

4. The Bank waives Borrowers' compliance with Section 10.1 [Tangible Net Worth] of the Agreement in respect of Borrower's fiscal quarter ended March 31, 2009 (collectively, the **"Subject Defaults").** From and after the date of this First Modification Agreement, Bank hereby waives its right to pursue its remedies on account of the Subject Defaults. Such waivers (a) shall not be deemed to extend to any other Event of Default which has arisen or may hereafter arise, whether or not known to the Bank or any Borrower on the date hereof, (b) shall not be deemed to effect any amendment of the Agreement or any of the other Loan Documents, all of which shall remain in full force and effect in accordance with their respective terms except as expressly amended hereby and (c) shall not be deemed to establish a custom or course of dealing between Borrowers and Bank.

5. This First Modification Agreement shall not constitute a consent to any other inaction or action by the Borrowers (including, but not limited to, any default, whether known or undiscovered under the Agreement or Loan Documents) nor shall it operate as a waiver of any other right, power, or remedy of the Bank under, or of any provision contained in, the Agreement or any Loan Document or under applicable law (all of which rights and remedies are hereby expressly reserved by the Bank), except as specifically provided herein. Without limiting the Bank's rights upon the occurrence of any default under the Agreement or Loan Documents, in the event any Borrower fails to comply with any requirement of this First Modification Agreement, such failure shall constitute a default under the Agreement entitling the Bank to pursue all remedies available to it under the Agreement and/or Loan Documents. Nothing in this First Modification Agreement, any other correspondence, any oral communications between the Bank and any Borrower or the making of any advances to any Borrower under the Agreement or Loan Documents shall be construed to be or is a waiver, modification or release of any other default, whether now existing or hereafter arising, or any of the Bank's rights and remedies under the Agreement or Loan Documents or any other documents or agreements applicable to the loans evidenced thereby.

6. The Borrowers, jointly and severally, represent and warrant that the execution, delivery and performance of this First Modification Agreement are within the authority of Borrowers and have been duly authorized by all necessary action.

7. This First Modification Agreement shall only become effective upon execution by the Borrowers and the Bank.

8. Wherever possible, each provision of this First Modification Agreement shall be interpreted in such manner as to be effective and valid under applicable law. If, however, any provision of this First Modification Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this First Modification Agreement, unless the ineffectiveness of such provision materially and adversely alters the benefits accruing to either party hereunder.

9. This First Modification Agreement may be executed in counterparts, each of which, when taken together, shall constitute one and the same instrument. Receipt of an executed signature page to this letter by facsimile or other electronic transmission shall constitute effective delivery thereof.

Please sign and date this letter in the space provided below indicating your acceptance of the terms of this First Modification Agreement.

Sincerely,

THE PRIVATEBANK AND TRUST COMPANY

By: /s/ Thomas G. Estey

Name: Thomas G. Estey
Title: Managing Director

BORROWERS:

ACKNOWLEDGED AND AGREED: August 13, 2009

LIFEWAY FOODS, INC.

By: /s/ Julie Smolyanksy
Title: CEO

FRESH MADE, INC.

By: /s/ Edward Smolyanksy
Title: President CEO

HELIOS NUTRITION LIMITED
By: /s/ Julie Smolyanksy
Title: CEO

PRIDE OF MAIN STREET DAIRY, LLC
By: /s/ Julie Smolyanksy
Title: CEO

STARFRUIT, LLC
By: /s/ Julie Smolyanksy
Title: CEO

EXHIBIT 10.16

Second Modification Agreement

November 12, 2009

Lifeway Foods, Inc.
Fresh Made, Inc.
Helios Nutrition Limited
Pride of Main Street Dairy, LLC StarFruit, LLC
c/o 6431 W. Oakton Street
Morton Grove, Illinois 60053 Attention: Edward Smolyansky

Re: Modification of that certain LOAN AND SECURITY AGREEMENT dated as of February 6, 2009, as amended by that certain First Modification Agreement dated as of August 13, 2009 (collectively, the **"Agreement"),** by and between LIFEWAY FOODS, INC., an Illinois corporation **("Lifeway"),** FRESH MADE, INC., a Pennsylvania corporation **("FMI"),** LFI ENTERPRISES, INC., an Illinois corporation now dissolved **("LFI"),** HELIOS NUTRITION LIMITED, a Minnesota corporation **("Helios"),** PRIDE OF MAIN STREET DAIRY, LLC, a Minnesota limited liability company **("Pride")** and STARFRUIT, LLC, an Illinois limited liability company **("Starfruit"),** and THE PRIVATEBANK AND TRUST COMPANY (the **"Bank").** Lifeway, FMI, Helios, Pride and Starfruit are hereinafter sometimes individually referred to as a **"Borrower"** and collectively as the **"Borrowers."** Capitalized terms used herein which are not defined shall have the meanings ascribed to them in the Agreement.

Dear Mr. Smolyansky:

The Borrowers have requested that the Bank modify Section 10.3 of the Agreement to increase the amount of Capital Expenditures permitted in any fiscal year from $750,000 to $2,000,000. The Bank has agreed to such amendment subject to the following:

1. Except as expressly provided in this Second Modification Agreement, all terms and conditions of the Agreement and Loan Documents shall remain in full force and effect, without modification or limitation, and are hereby ratified and confirmed in all respects.

2. All representations, warranties and covenants contained in the Agreement and Loan Documents are hereby reconfirmed as of the date hereof (other than those representations and warranties related to LFI which has previously been liquidated and dissolved).

3. From and after the date hereof, Section 10.3 of the Agreement is hereby amended and restated in its entirety as follows:

10.3 Capital Expenditures. The Borrowers and their Subsidiaries shall not collectively incur Capital Expenditures in an amount greater than Two Million and 00/100 Dollars ($2,000,000.00) in the aggregate in each fiscal year, tested quarterly commencing September 30, 2009.

4. This Second Modification Agreement shall not constitute a consent to any other inaction or action by the Borrowers (including, but not limited to, any default, whether known or undiscovered under the Agreement or Loan Documents) nor shall it operate as a waiver of any other right, power, or remedy of the Bank under, or of any provision contained in, the Agreement or any Loan Document or under applicable law (all of which rights and remedies are hereby expressly reserved by the Bank), except as specifically provided herein. Without limiting the Bank's rights upon the occurrence of any default under the Agreement or Loan Documents, in the event any Borrower fails to comply with any requirement of this Second Modification Agreement, such failure shall constitute a default under the Agreement entitling the Bank to pursue all remedies available to it under the Agreement and/or Loan Documents. Nothing in this Second Modification Agreement, any other correspondence, any oral communications between the Bank and any Borrower or the making of any advances to any Borrower under the Agreement or Loan Documents shall be construed to be or is a waiver, modification or release of any other default, whether now existing or hereafter arising, or any of the Bank's rights and remedies under the Agreement or Loan Documents or any other documents or agreements applicable to the loans evidenced thereby.

5. In consideration of the execution and delivery of this Second Modification by Bank, the sufficiency of which is acknowledged, and excepting only the contractual obligations respecting future performance by Bank arising under the Agreement and the other Loan Documents, each Borrower hereby irrevocably releases and forever discharges Bank and each of its affiliates, subsidiaries, successors, assigns, directors, officers, employees, agents, representatives and attorneys (each, a **"Released Person"**) of and from all damages, losses, claims, demands, liabilities, obligations, actions and causes of action whatsoever which Borrowers may now have or claim to have on and as of the date hereof against any Released Person, whether presently known or unknown, liquidated or unliquidated, suspected or unsuspected, contingent or non-contingent, and of every nature and extent whatsoever (collectively, **"Claims"**). Borrowers represent and warrant to Bank that they have not granted or purported to grant to any other Person any interest whatsoever in any Claim, as security or otherwise. Borrowers shall jointly and severally indemnify, defend and hold harmless each Released Person from and against any and all Claims and any loss, cost, liability, damage or expense (including reasonable attorneys' fees and expenses) incurred by any Released Person in investigating, preparing for, defending against, providing evidence or producing documents in connection with or taking other action in respect of any commenced or threatened Claim.

6. The Borrowers, jointly and severally, represent and warrant that the execution, delivery and performance of this Second Modification Agreement are within the authority of Borrowers and have been duly authorized by all necessary action.

7. This Second Modification Agreement shall only become effective upon execution by the Borrowers and the Bank.

8. Wherever possible, each provision of this Second Modification Agreement shall be interpreted in such manner as to be effective and valid under applicable law. If, however, any provision of this Second Modification Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Second Modification Agreement, unless the ineffectiveness of such provision materially and adversely alters the benefits accruing to either party hereunder.

9. This Second Modification Agreement may be executed in counterparts, each of which, when taken together, shall constitute one and the same instrument. Receipt of an executed signature page to this letter by facsimile or other electronic transmission shall constitute effective delivery thereof.

[SIGNATURE PAGE FOLLOWS]

Please sign and date this letter in the space provided below indicating your acceptance of the terms of this Second Modification Agreement.

Sincerely,

THE PRIVATEBANK AND TRUST COMPANY

By: /s/ Thomas G. Estey

Name: Thomas G. Estey
Title: Managing Director

BORROWERS:

ACKNOWLEDGED AND AGREED: November 12, 2009

LIFEWAY FOODS, INC.

By: /s/ Julie Smolyanksy
Title: President

FRESH MADE, INC.

By: /s/ Edward Smolyansky
Title: President , CEO

HELIOS NUTRITION LIMITED

By: /s/ Julie Smolyanksy
Title: President

PRIDE OF MAIN STREET DAIRY, LLC

By: /s/ Julie Smolyanksy
Title: President

STARFRUIT, LLC

By: /s/ Julie Smolyanksy
Title: President

EXHIBIT 10.17

THIRD MODIFICATION TO

LOAN AND SECURITY AGREEMENT

among

THE PRIVATEBANK AND TRUST COMPANY
Bank

LIFEWAY FOODS, INC., FRESH MADE, INC.,
HELIOS NUTRITION LIMITED, PRIDE OF MAIN STREET DAIRY, LLC,
AND STARFRUIT, LLC
Borrowers

THIRD MODIFICATION TO
LOAN AND SECURITY AGREEMENT

THIS THIRD MODIFICATION TO LOAN AND SECURITY AGREEMENT ("**Third Modification**") is made as of the 6th day of February, 2010 (the "**Effective Date**") is executed by and among THE PRIVATEBANK AND TRUST COMPANY ("**Bank**"), LIFEWAY FOODS, INC., an Illinois corporation, FRESH MADE, INC., a Pennsylvania corporation, HELIOS NUTRITION LIMITED, a Minnesota corporation, PRIDE OF MAIN STREET DAIRY, LLC, a Minnesota limited liability company, and STARFRUIT, LLC, an Illinois limited liability company ("**Borrowers**").

W I T N E S S E T H:

WHEREAS, Bank and Borrowers previously entered into a Loan and Security Agreement dated February 6, 2009, as amended by that certain First Modification to Loan and Security Agreement dated as of August 13, 2009, and by that certain Second Modification Agreement dated November 12, 2009 (as modified, the "**Loan Agreement**"), pursuant to which Bank made available to Borrowers a credit facility.

WHEREAS, Bank and Borrowers desire to amend the Loan Agreement to, among other things, extend the maturity of the Revolving Loan to February 6, 2011 and decrease the Borrowers' Revolving Loan Commitment to $4,000,000.

NOW, THEREFORE, in consideration of the terms and conditions contained herein, and of any extension of credit heretofore, now or hereafter made by Bank to Borrowers, the parties hereto hereby agree as follows:

1. GENERAL DEFINITIONS

1.1 Undefined Terms. Unless the context otherwise provides or requires, capitalized terms used herein which are not defined herein shall have the meanings ascribed to them in the Loan Agreement; provided, however, that all references in the Loan Agreement to (a) "Obligations" shall, in addition to the definition set forth in the Loan Agreement include, but not be limited to, the duties and obligations of Borrowers under this Third Modification and (b) "Loan Documents" shall, in addition to the definition set forth in the Loan Agreement include, but not be limited to, this Third Modification and the documents and instruments to be delivered pursuant to this Third Modification.

1.2 Amended and Restated Defined Terms. When used herein and in the Loan Agreement, the following terms shall have the following amended and restated meanings:

""Revolving Loan Commitment" shall mean Four Million and 00/100 Dollars ($4,000,000.00)."

""Revolving Loan Maturity Date" shall mean February 6, 2011, unless extended by the Bank pursuant to any modification, extension or renewal note executed by the Borrowers and accepted by the Bank in its sole and absolute discretion in substitution for the Revolving Note."

1.3 Other Terms. All other terms contained in this Third Modification shall, unless the context indicates otherwise, have the meanings provided for by the Uniform Commercial Code (the "**Code**") of the State of Illinois, as now or hereafter in effect, to the extent the same are used or defined therein.

2. AMENDMENT TO REVOLVING NOTE. The Revolving Note is hereby amended by deleting all references to "$5,000,000" and replacing such references with "$4,000,000". Except as specifically set forth herein, the Revolving Note, the Term Note and the Loan Documents previously delivered by the Borrowers shall remain in full force and effect and are hereby ratified and confirmed in all respects. The indebtedness evidenced by the Revolving Note (as hereby amended by this Third Modification) is continuing indebtedness of Borrowers and nothing herein shall be deemed to constitute a payment, settlement or novation of the Revolving Note, or to release or otherwise adversely affect any lien or security interest securing such indebtedness or any rights of Bank against any party primarily or secondarily liable for such indebtedness.

3. WARRANTIES AND REPRESENTATIONS.

3.1 General Representations and Warranties. Each of the Borrowers jointly and severally warrants and represents that, except as provided in Exhibit A hereto, the representations and warranties of Borrowers as set forth in the Loan Agreement were true and correct when made and remain true and correct as of the Effective Date.

3.2 Warranty and Reaffirmation of Warranties and Representations; Survival of Warranties and Representations. Each request for an advance made by Borrowers pursuant to this Third Modification, the Loan Agreement or the Loan Documents shall constitute a reaffirmation as of the date of said request of the representations and warranties of Borrowers contained in Section 7 of the Loan Agreement and Section 3.1 of this Third Modification. All representations and warranties of Borrowers contained in this Third Modification and the Loan Documents shall survive the execution, delivery and acceptance thereof by the parties thereto and the closing of the transactions described therein or related thereto and the termination of this Third Modification for any reason.

4. CONDITIONS PRECEDENT.

This Third Modification shall become effective upon the satisfaction of the following conditions precedent:

4.1 Execution and Delivery of Amendment. This Third Modification or counterparts thereof shall have been duly executed by Borrowers and Bank, and delivered to, Borrowers and Bank.

4.2 Documents and Loan Documents. Bank shall have received such other documents, affidavits, certificates, lien searches and statements executed and delivered by Borrowers as may be required or deemed advisable by Bank or its counsel, to duly authorize, create and perfect the security interests in the Collateral in favor of Bank as contemplated by this Third Modification.

4.3 No Default Exists. No Event of Default or Unmatured Event of Default exists.

4.4 Material Adverse Effect. No event shall have occurred since November 1, 2009 which has had or could have a Material Adverse Effect.

5. MISCELLANEOUS.

5.1 Expenses (Including Attorneys' Fees). In addition to amounts payable pursuant to the Loan Agreement, Borrowers shall reimburse Bank on demand for all its reasonable expenses (including, but not limited to, reasonable attorneys' fees and expenses) of, or incidental to:

(a) The preparation of this Third Modification, all Loan Documents, any amendment of or modification of this Third Modification or the Loan Documents including, without limitation, any lien search costs and expenses;

(b) Any litigation, contest, dispute, suit, proceeding or action (whether instituted by Bank, Borrowers or any other Person) in any way relating to the Collateral, this Third Modification, the Loan Documents or Borrowers' affairs;

(c) Any attempt to enforce any rights of Bank against Borrowers or any other Person which may be obligated to Bank by virtue of this Third Modification or the Loan Documents, including, without limitation, the Account Debtors; and/or

(d) Any attempt to inspect, verify, protect, collect, sell, liquidate or otherwise dispose of the Collateral.

Such expenses shall be additional Obligations hereunder secured by the Collateral. Without limiting the generality of the foregoing, such expenses, costs, charges and fees may include paralegal fees, costs and expenses; accountants' fees, costs and expenses; court costs and expenses; photocopying and duplicating expenses; court reporter fees, costs and expenses; long distance telephone charges; air express charges; telegram charges; secretarial over-time charges; and expenses for travel, lodging and food.

5.2 Limited Waiver of Field Audit. The Bank hereby waives it right to conduct any inspections and audits under Section 8.14 of the Loan Agreement prior to the Revolving Loan Maturity Date provided that (a) no Event of Default or Unmatured Event of Default shall have occurred and (b) between the Effective Date and the Revolving Loan Maturity Date, the outstanding balance of the Revolving Loan will be $0.00 for not less than thirty (30) consecutive days (it being understood and agreed that Bank may conduct such inspections and audits at any time (i) after the Revolving Loan Maturity Date, (ii) prior to the Borrowers' compliance with the preceding clause (b) and/or (c) following the occurrence of an Event of Default or Unmatured Event of Default).

5.3 Severability. Wherever possible, each provision of this Third Modification shall be interpreted in such manner as to be effective and valid under applicable law. If, however, any provision of this Third Modification shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Third Modification, unless the ineffectiveness of such provision materially and adversely alters the benefits accruing to either party hereunder.

5.4 Parties. This Third Modification and the Loan Documents shall be binding upon and inure to the benefit of the successors and assigns of Borrowers and Bank.

5.5 Conflict of Terms. The Loan Agreement, Loan Documents and all Schedules and Exhibits hereto are incorporated in this Third Modification by this reference thereto. Except as otherwise provided in this Third Modification and except as otherwise provided in the Loan Agreement by specific reference to the applicable provision of this Third

Modification, if any provision contained in this Third Modification is in conflict with, or inconsistent with, any provision in the Loan Agreement or Loan Documents, the provision contained in this Third Modification shall govern and control; provided, however, that whenever possible the provisions of this Third Modification, the Loan Agreement and Loan Documents shall be construed and interpreted to avoid any such conflicts or inconsistencies.

5.6 Waivers by Borrowers. Except as otherwise provided for in this Third Modification and the Loan Agreement, each of the Borrowers waives (a) presentment, demand and protest and notice of presentment, protest, default, non-payment, maturity, release, compromise, settlement, extension or renewal of any or all commercial paper, accounts, contract rights, documents, instruments, chattel paper and guaranties at any time held by Bank on which any of the Borrowers may in any way be liable and hereby ratifies and confirms whatever Bank may do in this regard; (b) all rights to notice of a hearing prior to Bank’s taking possession or control of, or to Bank’s replevy, attachment or levy upon, the Collateral or any bond or security which might be required by any court prior to allowing Bank to exercise any of Bank’s remedies; and (c) the benefit of all valuation, appraisement and exemption laws. Each of the Borrowers acknowledge that they have been advised by counsel with respect to this Third Modification and the transactions evidenced by this Third Modification.

5.7 Authorized Signatures. The signature upon this Third Modification or any of the Loan Documents of a person previously designated by Borrowers shall bind Borrowers and be deemed to be the act of Borrowers.

5.8 Forum Selection and Consent to Jurisdiction. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS THIRD MODIFICATION OR ANY OTHER LOAN DOCUMENT, SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF ILLINOIS OR IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS; PROVIDED THAT NOTHING IN THIS THIRD MODIFICATION SHALL BE DEEMED OR OPERATE TO PRECLUDE THE BANK FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION. EACH OF THE BORROWERS HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF ILLINOIS AND OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE. EACH OF THE BORROWERS FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF ILLINOIS. EACH OF THE BORROWERS HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

5.9 Waiver of Jury Trial. THE BANK AND EACH OF THE BORROWERS, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, EACH KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE IRREVOCABLY, ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS THIRD MODIFICATION, ANY NOTE, ANY OTHER LOAN DOCUMENT, ANY OF THE OTHER OBLIGATIONS, THE COLLATERAL, OR ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR THEREWITH OR ARISING FROM ANY LENDING RELATIONSHIP EXISTING IN CONNECTION WITH ANY OF THE FOREGOING, OR ANY COURSE OF CONDUCT OR COURSE OF DEALING IN WHICH THE BANK AND ANY OF THE

BORROWERS ARE ADVERSE PARTIES, AND EACH AGREE THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE BANK GRANTING ANY FINANCIAL ACCOMMODATION TO THE BORROWERS.

5.10 Governing Law. This Third Modification shall be delivered and accepted in and shall be deemed to be contracts made under and governed by the internal laws of the State of Illinois (but giving effect to federal laws applicable to national banks) applicable to contracts made and to be performed entirely within such state, without regard to conflict of laws principles.

5.11 Release of Claims. In consideration of the execution and delivery of this Third Modification by Bank, the sufficiency of which is acknowledged, and excepting only the contractual obligations respecting future performance by Bank arising under the Loan Agreement and the Loan Documents, each of the Borrowers hereby irrevocably releases and forever discharges Bank and each of its affiliates, subsidiaries, successors, assigns, directors, officers, employees, agents, representatives and attorneys (each, a "**Released Person**") of and from all damages, losses, claims, demands, liabilities, obligations, actions and causes of action whatsoever which such Borrowers may now have or claim to have on and as of the date hereof against any Released Person, whether presently known or unknown, liquidated or unliquidated, suspected or unsuspected, contingent or non-contingent, and of every nature and extent whatsoever (collectively, "**Claims**"). Each Borrower jointly and severally represents and warrants to Bank that it has not granted or purported to grant to any other Person any interest whatsoever in any Claim, as security or otherwise. Borrowers shall jointly and severally indemnify, defend and hold harmless each Released Person from and against any and all Claims and any loss, cost, liability, damage or expense (including reasonable attorneys' fees and expenses) incurred by any Released Person in investigating, preparing for, defending against, providing evidence or producing documents in connection with or taking other action in respect of any commenced or threatened Claim.

5.12 Section Titles. The section titles contained in this Third Modification are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

5.13 Remainder of Loan Agreement Unaffected. Except as specifically amended by this Third Modification, all of the terms and provisions of the Loan Agreement shall remain in full force and effect.

5.14 Counterparts; Integration; Effectiveness. This Third Modification may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Third Modification by telecopy or electronically (such as PDF) shall be effective as delivery of a manually executed counterpart of this Third Modification. Execution of any Exhibit to this Third Modification shall have the same legal effect as if such document were separately executed without the Exhibit reference thereon.

* * * * *

IN WITNESS WHEREOF, this Third Modification has been duly executed as of the day and year specified at the beginning hereof.

BANK:

THE PRIVATEBANK AND TRUST COMPANY

By: /s/ Thomas G. Estey

Name: Thomas G. Estey
Title: Managing Director

BORROWERS:

LIFEWAY FOODS, INC.

By: /s/ Julie Smolyansky

Title: President

FRESH MADE, INC.

By: /s/ Edward Smolyansky

Title: President, CEO

HELIOS NUTRITION LIMITED

By: /s/ Julie Smolyansky

Title: President

PRIDE OF MAIN STREET DAIRY, LLC

By: /s/ Julie Smolyansky

Title: President

STARFRUIT, LLC

By: /s/ Julie Smolyansky

Title: President

EXHIBIT A

EXCEPTIONS TO REPRESENTATIONS AND WARRANTIES

No exceptions.

EXHIBIT 21

Subsidiaries of Lifeway Foods, Inc.:

Helios Nutrition, Ltd. — a Minnesota corporation, 100% owned

Fresh Made, Inc. — a Pennsylvania corporation, 100% owned

Starfruit, L.L.C. — an Illinois limited liability company, 100% owned

Starfruit Franchisor, L.L.C — an Illinois limited liability company, 100% owned

Subsidiary of Helios Nutrition, Ltd.:
Pride of Main Street Dairy, L.L.C. — a Minnesota limited liability company, 100% owned

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference into the Registration Statement filed June 9, 1995 on Form S-8 of our report dated March 31, 2010 relating to the consolidated financial statements of Lifeway Foods, Inc. as of December 31, 2009 and 2008 which appear in this Form 10-K of Lifeway Foods, Inc. for the year ended December 31, 2009.

/s/ Plante & Moran, PLLC
Grand Rapids, MI
March 31, 2010

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 the annual report on Form 10-K 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(s) 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(s) 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 (or persons performing the equivalent functions):

   (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: March 31, 2010

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

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, Edward P. Smolyansky, certify that:

1. I have reviewed the annual report on Form 10-K 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(s) 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(s) 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 (or persons performing the equivalent functions):

   (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: March 31, 2010

By: /s/ Edward P. Smolyansky
Edward P. Smolyansky
Chief Financial and Accounting
Officer and Treasurer

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 Annual Report on Form 10-K of Lifeway Foods, Inc. (the "Company") for the period ended December 31, 2009 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: March 31, 2010

By: /s/ Julie Smolyansky
Julie Smolyanky
Chief Executive Officer, President
and Director

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 Annual Report on Form 10-K of Lifeway Foods, Inc. (the "Company") for the period ended December 31, 2009 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: March 31, 2010

By: /s/ Edward P. Smolyansky
Edward P. Smolyansky
Chief Financial and Accounting
Officer and Treasurer

EXHIBIT 99.1

Lifeway Foods, Inc.
For Immediate Release

Lifeway Foods Reports 4th Quarter and Twelve Months Ended December 31, 2009 Results

- **Q4 2009 Sales Up 37%; Total 2009 Sales Up 31%**
- **Total Q4 2009 EPS $.01 vs. $.04 Loss per Share in Q4 2008**
- **Total 2009 EPS $.33 vs. $.11 in 2008**

Morton Grove, IL—March 31, 2010—Lifeway Foods, Inc., (Nasdaq: LWAY), makers of a nutritious, probiotic dairy beverage called Kefir, announced today for the fourth quarter ended December 31, 2009, total consolidated sales increased by $3,890,952, (approximately 37%) to $14,466,495 from $10,575,543 during the same three month period in 2008.

This increase is primarily attributable to increased sales and awareness of Lifeway's flagship line, Kefir, as well as ProBugs® Organic Kefir for kids. Additionally, Lifeway recorded revenues from its February 6, 2009 acquisition of Fresh Made Dairy. Included in the total group sales was approximately $2,210,000 of revenue related to this acquisition and recorded during the fourth quarter of 2009.

Cost of goods sold as a percentage of sales was approximately 79% during the fourth quarter 2009, compared to about 82% during the same period in 2008. The decrease was primarily attributable to the decreased cost of conventional milk, our largest raw material.

Additionally, as part of Lifeway's growth strategy, the company increased its product sampling and demonstration activities, couponing, and other promotional initiatives in the fourth quarter 2009, when compared to the same period in 2008, which has an impact on cost of goods sold. During the fourth quarter 2009, the company also increased a reserve account for these types of promotional expenses off invoice from $75,000 during the fourth quarter 2008 to $250,000 during the fourth quarter 2009.

Even though the cost of conventional milk was lower in the fourth quarter 2009 compared to the same period a year ago, the cost of organic milk and other organic raw material ingredients increased approximately 10% during this same period. In the fourth quarter 2009, amount of organic products sold comprised approximately 35% of Lifeway's total sales. These products include Lifeway's Organic Kefir, Lifeway's Organic ProBugs kids Kefir, and Lifeway's Helios Organic Kefir lines.

Operating expenses as a percentage of sales was approximately 21% during the fourth quarter 2009, compared to about 19% during the same period in 2008. This increase is primarily attributable to a 111% increase in amortization expense, a non cash expense, related to the February 6, 2009 acquisition of Fresh Made Dairy.

Total other expenses for the fourth quarter 2009 were $26,497, compared with total other expenses of $1,252,744 during the same period in 2008. This decrease is primarily attributable to a higher realized loss on the sale of marketable securities, as well as an impairment of marketable securities during the fourth quarter 2008, when compared to the same period in 2009. During the fourth quarter 2009, the company realized losses in the amount of $4,178 and had no impairment to securities. During the fourth quarter 2008, the company realized losses in the amount of $587,243 and recognized an impairment to marketable securities in the amount of $687,971.

Total net income for the group was $119,593, or $.01 per share for the fourth quarter 2009, compared with a net loss of $742,965, or $.04 per share loss in the same period in 2008.

For the twelve months ended December 31, 2009, total consolidated sales for the group increased by $13,654,423 (approximately 31%) to $58,115,878 from $44,461,455 during the same twelve month period in 2008. Lifeway recorded revenues from its February 6, 2009 acquisition of Fresh Made Dairy. Included in the total group sales was approximately $7,943,600 of revenue related to this acquisition and recorded during the twelve-month period ended December 31, 2009.

Cost of goods sold as a percentage of sales excluding depreciation expense was approximately 62% in 2009, compared to about 70% in 2008. The decrease was primarily attributable to the decreased cost of conventional milk, our largest raw material, and the cost of transportation and other petroleum based production supplies.

Operating expenses as a percentage of sales was approximately 21% in 2009, compared to about 19% in 2008. This increase is primarily attributable to the increase in professional fees related to the February 6, 2009 acquisition of Fresh Made Dairy and a 112% increased amortization expense, a non cash expense, also related to the Fresh Made Dairy acquisition. Many of the acquisition related professional fees are non recurring expenses. Additionally, selling expenses during 2009 rose 46% from 2008 as the company increased it marketing and advertising budget during 2009.

Total net income for the group was $5,569,702, or $.33 per share for the twelve months ended December 31, 2009, compared with $1,912,275, or $.11 per share in the same period in 2008.

Net cash provided by operating activities was $7,603,061 during the twelve months ended December 31, 2009, which is an increase of $2,869,401 compared to $4,733,660 of net cash provided by operating activities during the same period in 2008. This increase is primarily attributable to the increase in net income of $3,657,427.

Julie Smolyansky, CEO commented, “We are extremely pleased at our 2009 results as the year was a very exciting one for us. We had another record year for both revenue and earnings growth and we completed the purchase of our top competitor in the space. We also completed the opening of two new Starfruit retail shops. These shops have proven to be great new way for us to bring Kefir to a whole new market and demographic of people not previously exposed to our products and probiotics.”

Smolyansky added, “2010 looks to be another milestone year in our company’s history as we continue to add and develop new and innovative products that will help drive our growth. This continued growth is already evident by our first quarter 2010 revenues, which will near $16 million, but more importantly is, the last 11 weeks of this first quarter which ends today, our weekly sales are now averaging $1.35 million. Our product input costs also continue to remain somewhat flat when compared to last year. The cost of conventional milk was up slightly during the first quarter 2010 when compared to the fourth quarter in 2009, but has since begun to steadily decline, with April 2010 prices near historic lows. These lower raw material costs, along with our continued efforts to streamline our production capabilities and cut production costs, should allow us to be able to fund our growing marketing and advertising effots.”

About Lifeway Foods

Lifeway, recently named Fortune Small Business' 97th Fastest Growing Small Business, and one of only 4 companies to ever be named to the list four straight years in a row, is America's leading supplier of the cultured dairy product known as kefir, and now America’s only supplier of Organic Kefir. Lifeway Kefir is a dairy beverage that contains Lifeway's exclusive 10 Live and Active probiotic cultures. While most regular yogurt only contains two or three of these "friendly" cultures, Lifeway kefir products offer more nutritional benefits. Lifeway offers 12 different flavors of its Kefir beverage, Organic Kefir and SoyTreat (a soy based kefir). Lifeway recently introduced a series of innovative new products such as pomegranate kefir, Greek-style kefir, a children’s line of organic kefir products called ProBugs (TM) in a no-spill pouch in kid-friendly flavors like Orange Creamy Crawler and Sublime Slime Lime, and a line of organic whole milk kefir. Lifeway also produces a line of products marketed in US Hispanic communities, called La Fruta, Drinkable Yogurt (yogurt drinks distinct from kefir). In addition to its line of Kefir products, the company produces a variety of cheese products and recently introduced a line of organic pudding called It's Pudding!.

Live conference calls will now be on an annual basis to discuss fiscal full year results. For more information, contact Lifeway Foods, Inc. at (847) 967-1010 or e-mail at info@lifeway.net and visit http://www.lifeway.net .

This news release contains forward-looking statements. Investors are cautioned that actual results may differ materially from such forward-looking statements. Forward-looking statements involve risks and uncertainties including, but not limited to, competitive pressures and other important factors detailed in the Company's reports filed with the Securities and Exchange Commission.

	Year Ended December 31, 2009	Year Ended December 31, 2008
Sales	58,115,878	44,461,455
Cost of goods sold	36,083,553	30,926,114
Depreciation expense	1,134,404	777,715
Total cost of goods sold	37,217,957	31,703,829
Gross profit	**20,897,921**	**12,757,626**
Selling Expenses	5,987,917	4,098,176
General and Administrative	5,294,550	4,149,010
Amortization expense	676,786	319,446
Total Operating Expenses	**11,959,253**	**8,566,632**
Income from operations	**8,938,668**	**4,190,994**
Other income (expense):		
Interest and dividend income	199,047	343,329
Rental Income	35,240	48,886
Interest expense	(442,703)	(298,619)
Impairment of marketable securities	---	(958,879)
Loss on Disposition of Equipment	(2,826)	---
Loss on sale of marketable securities, net	(278,474)	(733,647)
Total other income (Expense)	(489,716)	(1,598,930)
Income before provision for income taxes	**8,448,952**	**2,592,064**
Provision for income taxes	2,879,250	679,789
Net income	**$ 5,569,702**	**$ 1,912,275**
Basic and diluted earnings per common share	0.33	0.11
Weighted average number of shares outstanding	**16,798,164**	**16,765,080**

	Years Ended December 31, 2009	December 31, 2008
Cash flows from operating activities:		
Net income	**$ 5,569,702**	**$ 1,912,275**
Adjustments to reconcile net income to net cash flows from operating activities, net of acquisition:		
Depreciation and amortization	1,811,190	1,092,995
Loss on sale of marketable securities, net	278,474	733,647
Loss on disposition of assets	2,825	---
Impairment of marketable securities	---	958,879
Deferred income taxes	389,754	(509,386)
Treasury stock issued for compensation	144,636	96,968
(Decrease) Increase in allowance for doubtful accounts	(75,000)	70,551
(Increase) decrease in operating assets:		
Accounts receivable	(612,915)	(626,754)
Other receivables	(7,758)	2,797
Inventories	173,419	409,012
Refundable income taxes	(475,635)	(115,536)
Prepaid expenses and other current assets	9,506	(1,973)
Increase in operating liabilities:		
Accounts payable	298,800	665,942
Accrued expenses	96,063	44,243
Checks written in excess of bank balances	342,976	
Net cash provided by operating activities	**7,603,061**	**4,733,660**
Cash flows from investing activities:		
Purchases of marketable securities	(6,156,682)	(5,782,452)
Sale of marketable securities	6,928,321	5,323,423
Increase in margin	---	---
Purchases of property and equipment	(1,766,280)	(2,157,315)
Acquisition of Fresh Made, net of cash acquired	(11,042,546)	---
Net cash used in investing activities	**(12,037,187)**	**(2,616,344)**
Cash flows from financing activities:		
Checks written in excess of bank balances	$ 342,976	---
Proceeds of note payable	9,353,504	---
Purchases of treasury stock, net	(905,607)	(1,239,488)
Repayment of notes payable	(4,003,588)	(1,196,465)
Net cash (used in) provided by financing activities	**4,787,285**	**(2,435,953)**
Net increase (decrease) in cash and cash equivalents	**353,159**	**(318,637)**
Cash and cash equivalents at the beginning of the period	277,248	595,885
Cash and cash equivalents at the end of the period	**$ 630,407**	**$ 277,248**