

LIFEWAY FOODS INC
Form PRE 14A
April 30, 2013

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

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant
Filed by a Party other than the Registrant
Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to §240.14a-12

LIFEWAY FOODS, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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| (2) | Aggregate number of securities to which transaction applies: |
| (3) | Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): |
| (4) | Proposed maximum aggregate value of transaction: |

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

LIFEWAY FOODS, INC.
6431 W. OAKTON
MORTON GROVE, IL 60053

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD JUNE 20, 2013

TO OUR SHAREHOLDERS:

You are invited to be present either in person or by proxy at the Annual Meeting of Shareholders of Lifeway Foods, Inc., an Illinois corporation (the "Company"), to be held at the Holiday Inn, 5300 W. Touhy Ave., Skokie, Illinois 60077, on June 20, 2013 at 2:00 p.m. local time (the "Meeting"), to consider and act upon the following:

1. The election of five Directors to serve until the next meeting or until their successors are duly elected and qualified.
2. The amendment and restatement of the Company's Articles of Incorporation (i) to increase the number of shares of the Company's common stock, no par value (the "Common Stock"), authorized for issuance and (ii) for updating purposes.
3. The ratification of the appointment of Plante & Moran, PLLC, as independent auditors for the next fiscal year.
4. The approval of the non-binding advisory resolution approving the compensation and vote upon a non-binding advisory proposal as to the frequency (every one, two or three years) with which the non-binding shareholder vote to approve the compensation of our named executive officers should be conducted.
5. The transaction of such other business as may properly come before the Meeting or any adjournments thereof.

Only shareholders of the Company's Common Stock, of record at the close of business on April 26, 2013 will be entitled to notice of and to vote at the Meeting. The stock transfer books of the Company will remain open.

WE INVITE EACH OF YOU TO ATTEND THE MEETING. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE PROMPTLY VOTE YOUR SHARES VIA THE INTERNET OR THE TOLL-FREE TELEPHONE NUMBER AS DESCRIBED IN THE ENCLOSED MATERIALS. IF YOU RECEIVED A PROXY CARD BY MAIL, PLEASE SIGN, DATE AND RETURN IT IN THE ENVELOPE PROVIDED. IF YOU ATTEND THE MEETING AND VOTE IN PERSON, YOUR VOTE BY PROXY WILL NOT BE USED. YOU MAY REVOKE YOUR PROXY AT ANY TIME PRIOR TO ITS EXERCISE, REGARDLESS OF THE MANNER USED TO TRANSMIT YOUR VOTING INSTRUCTIONS.

BY ORDER OF THE BOARD OF DIRECTORS

Ludmila Smolyansky
Chairperson of the Board
Skokie, Illinois
_____, 2013

LIFEWAY FOODS, INC.

PROXY STATEMENT

PROCEDURAL MATTERS

THIS PROXY STATEMENT IS FURNISHED TO THE SHAREHOLDERS OF LIFEWAY FOODS, INC., AN ILLINOIS CORPORATION (THE "COMPANY" or "LIFEWAY"), IN CONNECTION WITH THE SOLICITATION OF PROXIES BY AND ON BEHALF OF THE BOARD OF DIRECTORS OF THE COMPANY TO BE VOTED AT THE ANNUAL MEETING OF SHAREHOLDERS (THE "MEETING") TO BE HELD AT 2:00 P.M., LOCAL TIME, ON JUNE 20, 2013, OR AT ANY ADJOURNMENT OR POSTPONEMENT THEREOF.

Shareholders of record of common stock of the Company, no par value (the "Common Stock") at the close of business on April 26, 2013 (the "Record Date"), will be entitled to notice of and to vote at the Meeting. The Meeting will be held at the Holiday Inn, 5300 W. Touhy Ave., Skokie, Illinois 60077. Proxies received prior to the Meeting will be voted in accordance with the instructions contained in the proxy and, if no choice is specified, will be voted in favor of each nominee for Director named in this Proxy Statement and in favor of each other proposal set forth in this Proxy Statement. A shareholder who votes by proxy may revoke it at any time before it is voted by a written revocation delivered to any of the proxy holders named therein, by submitting another valid proxy bearing a later date or by attending the Meeting and voting in person. Beneficial owners wishing to vote at the Meeting who are not shareholders of record on the Company's books (e.g., persons holding in street name) must bring to the Meeting a power of attorney or proxy in their favor signed by the holder of record in order to be able to vote.

SOLICITATION OF PROXIES

Our proxy materials are primarily available to shareholders on the Internet, as permitted by rules of the U.S. Securities and Exchange Commission (the "SEC"). A Notice of Internet Availability of Proxy Materials is first being mailed to shareholders beginning approximately May 10, 2013, and this Proxy Statement and the form of proxy, together with our Annual Report on Form 10-K, are first being made available to the shareholders beginning approximately May 10, 2013 at www.proxyvote.com.

All of the costs and expenses in connection with the solicitation of proxies with respect to the matters described herein will be borne by the Company. In addition to solicitation of proxies by mail, the directors, officers and investor relations staff (who will receive no compensation in addition to their regular remuneration) of the Company named herein may solicit the return of proxies by telephone, telegram or personal interview. As of this date, the Company has retained Broadridge Financial Solutions, Inc. ("Broadridge"), an outside firm, to solicit proxies solely from individual shareholders of record and to print proxy notices and other related materials. The services provided by Broadridge to the Company are expected to cost approximately \$6,000. The Company has also retained Automatic Data Processing, Inc. ("ADP"), at an approximate

cost of \$3,000, to contact banks, brokerage houses and other custodians, nominees and fiduciaries with requests to forward copies of the proxy materials to their respective principals and to request instructions for voting the proxies. The expenses of such banks, brokerage houses and other custodians, nominees and fiduciaries in connection therewith are covered by the estimated fee to be paid by the Company to ADP. Action may be taken on the business to be transacted at the Meeting on the date specified in the Notice of Meeting or on any date or dates to which such Meeting may be adjourned.

VOTING OF PROXIES

A form of proxy is provided for use at the Meeting if a shareholder is unable to attend in person. Each proxy may be revoked at any time thereafter by writing to the Secretary of the Company prior to the Meeting, by execution and delivery of a subsequent proxy, or by attendance and voting in person at the Meeting, except as to any matter or matters upon which, prior to such revocation, a vote shall have been cast pursuant to the authority conferred by such proxy. Shares represented by a valid proxy which if received pursuant to this solicitation and not revoked before it is exercised, will be voted as provided on the proxy at the Meeting or at any adjournment or adjournments thereof.

VOTING SECURITIES AND VOTE REQUIRED

Only holders of the 16,346,017 shares of Common Stock, no par value per share, of record outstanding at the close of business on April 26, 2013, will be entitled to vote at the Meeting. Each holder of Common Stock is entitled to one vote for each share held by such holder. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock is necessary to constitute a quorum at the Meeting. Under the rules of the SEC, boxes and a designated blank space are provided on the proxy card for shareholders to mark if they wish to withhold authority to vote for one or more nominees for Director or for Proposal 2. Votes withheld in connection with the election of one or more of the nominees for Director or Proposal 2 will be counted as votes cast against such individuals or Proposal 2 and will be counted toward the presence of a quorum for the transaction of business. If no direction is indicated, the proxy will be voted for the election of the nominees for Director and for Proposal 2. The form of proxy provides for withholding of votes with respect to the election of Directors and a shareholder present at the Meeting also may abstain with respect to such election.

ANNUAL REPORT ON FORM 10-K

The Company's Annual Report on Form 10-K, for the fiscal year ended December 31, 2012 (the "Annual Report") has been posted along with this Proxy Statement. Shareholders are referred to the Annual Report for information concerning the Company's business and operations, but the Annual Report is not part of the proxy soliciting materials.

PROPOSAL 1: ELECTION OF DIRECTORS

Seven Directors are to be elected at the Meeting. Directors will be elected at the Meeting to serve until the next annual meeting of shareholders of the Company or until each of their successors shall be duly elected and qualified. As noted, unless otherwise indicated thereon, all proxies received will be voted in favor of the election of each of the five nominees of the Board named below as Directors of the Company. Should any of the nominees not remain a candidate for election at the date of the Meeting (which contingency is not now contemplated or foreseen by the Company), proxies solicited thereunder will be voted in favor of those nominees who do remain candidates and may be voted for substitute nominees elected by the Board. Each of the nominees is currently serving as a Director of the Company.

REQUIRED VOTE

The seven nominees receiving the highest number of affirmative votes of the shares present or represented and entitled to be voted for them shall be elected as Directors. Votes withheld from any Director are counted for purposes of determining the presence or absence of a quorum for the transaction of business, but have no other legal effect under Illinois law.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE TO ELECT THE DIRECTORS NOMINATED HEREIN TO SERVE AND PROXIES SOLICITED BY THE BOARD WILL BE VOTED IN FAVOR THEREOF UNLESS A SHAREHOLDER HAS INDICATED OTHERWISE ON THE PROXY.

The names of the nominees and certain information with regard to each nominee follows:

NAME	AGE	TITLE
Ludmila Smolyansky	62	Director and Chairperson of the Board of Directors
Julie Smolyansky	37	CEO, President, and Director
Pol Sikar	64	Director
Renzo Bernardi	60	Director
Gustavo Carlos Valle	48	Director
Paul Lee	38	Director
Jason Scher	38	Director

DIRECTORS AND DIRECTOR NOMINEES

LUDMILA SMOLYANSKY, 62, 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 Chief Operating Officer, Treasurer, Chief Financial and Accounting Officer and Secretary of the Company). Mrs. Smolyansky brings many years of food industry experience to the Board.

JULIE SMOLYANSKY, 37, was appointed as a Director, and elected President, Chief Executive Officer, Chief Financial Officer 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 Chief Financial Officer 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, 64, 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 13 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 historical perspective to the Board.

RENZO BERNARDI, 60, 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 Tecnico 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, 48, 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, L.P. (as the related successor to The Dannon Company, Inc.) to be its representative to the Board in accordance with the terms of that certain Stockholders' Agreement, as amended, between the Company and Dannon. Mr. Valle brings deep industry experience to the Board. Mr. Valle devotes as much time as necessary to the business of the Company and currently holds no other directorships in any other reporting company.

PAUL LEE, 38, was elected as a Director of the Company to fill a vacancy on the Board of Directors created by the resignation of Eugene Katz in July 2012. Mr. Lee joined Lightbank Inc. as a Partner in February 2011. Previously, Mr. Lee was Managing Director and Group Head for Digital Ventures at Playboy Enterprises, and was a founding member and Senior Vice President at the Peacock Equity Fund. Mr. Lee brings financial and strategic experience to the Company's Board of Directors. Mr. Lee devotes as much time as necessary to the business of the Company and currently holds no other directorships in any other reporting company.

JASON SCHER, 38, was elected as a Director of the Company to fill a vacancy on the Board of Directors in July 2012. Mr. Scher is the Chief Operating Officer of Vosges Haut-Chocolat. Mr Scher previously served as principal in Khoury Construction and RP3 Development. His strong leadership has been instrumental in laying a foundation for an entrepreneurial growing business. Mr. Scher also brings financial and strategic experience to the Company's Board of Directors. Mr. Scher devotes as much time as necessary to the business of the Company and currently holds no other directorships in any other reporting company.

EXECUTIVE OFFICERS

EDWARD P. SMOLYANSKY, 33, was appointed as Chief Financial and Accounting Officer and Treasurer of Lifeway in November 2004. He was also appointed Chief Operating Officer and Secretary in 2012. He had served as the Controller of the Company from June 2002 until 2004. 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 Chief Executive Officer Julie Smolyansky and the son of Lifeway's Chairperson of the Board, Ludmila Smolyansky.

VALERIY NIKOLENKO, 67, Vice President of Operations, has been VP of Operations for 16 years with Lifeway.

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"). Based on the Company's review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that none of its directors, executive officers or persons who beneficially own more than 10% of the Company's Common Stock failed to comply with Section 16(a) reporting requirements in fiscal year ended December 31, 2012, except for (i) Ms. Julie Smolyansky who failed to timely file one Form 4 regarding six transactions, and (ii) each of Messrs. Paul Lee and Jason Scher, each of whom failed to timely file a Form 3.

BOARD AND COMMITTEE MEETINGS

Board Leadership.

Since 2004, the positions of Chairperson of the Board of the Company and Chief Executive of the Company have been held by different individuals. Currently, Ludmila Smolyansky serves as Chairperson of the Board of the Company and Julie Smolyansky as Chief Executive of the Company. These two individuals provide leadership to the Board of Directors by setting the agenda for Board meetings, preparing information and alternatives for presentation to the Board and leading discussions among, and facilitating decision making by, the Board of Directors.

The Board believes that this structure is appropriate because it results in a balanced leadership, combining a separate independent Chairperson together with a member of management involved in the day-to-day operation of the Company's business.

During 2012, the Company's Board of Directors held four regular meetings (the Company's annual meeting of shareholders and Directors and quarterly meetings). In 2012, four of the five Directors attended the Company's annual meeting. Each director except Mr. Valle attended at least 75% of all meetings of our board of directors and committees on which he or she served that were held during such Director's term during 2012. Shareholders of the Company may send communications to the Board of Directors via the Company's Investor Relations department, which makes such communications available to the Directors as appropriate, to LIFEWAY FOODS, INC., 6431 W. OAKTON, MORTON GROVE, IL 60053, telephone (847) 967-1010, fax (847) 967-6558. The Investor Relations department can be reach via email at: info@lifeway.net.

Related Transactions.

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 2011 and 2012, since the beginning of 2010 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, Paul Lee and Jason Scher were independent of management.

Board Committees.

The Lifeway Audit Committee (the "Committee"), comprised of Messrs. Sikar, Bernardi, and Katz, pre-approved Plante & Moran, PLLC as the Company's independent auditor for the year-ended December 31, 2012 and has adopted the following guidelines regarding the engagement of the Company's independent auditor to perform services for the Company. Mr. Katz thereafter declined to stand for re-election. Mr. Lee was subsequently elected and appointed to fill Mr. Katz' vacancy on the Company's Board of Directors and the Committee.

Up until the expiration of Mr. Katz's term at the 2012 Annual Meeting, the Company's Audit Committee (the "Audit Committee") consisted of Messrs. Sikar, Bernardi and Katz. The Company's Board of Directors examined the qualifications of its Audit Committee members and has determined Mr. Lee to be an "audit committee financial expert," as defined in Item 407(d)(5)(ii) of Regulation S-K promulgated by the SEC, and all of the Audit Committee members have an understanding of finance and accounting and are 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.

The Board of Directors does not have a standing nominating committee, compensation committee or any committees performing similar functions. As there are only seven Directors serving on the Board, it is the view of the Board that at least a majority of the 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 and Ludmila Smolyansky, who are not considered independent, participate in the nominating process and the Company's executive compensation practices, in each case together with the independent directors. It is the view of the Board that participation of at least a majority of Directors in the duties of the nominating and compensation committees ensures not only as comprehensive as possible a review of Director candidates and executive compensation, but also that the views of independent, employee and shareholder Directors are considered.

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 Board welcomes properly submitted recommendations from shareholders and would evaluate shareholder nominees in the same manner that it evaluates a candidate recommended by other means. The deadline for submitting nominees to the Board is January 10, 2014. Shareholders may submit candidate recommendations by mail to LIFEWAY FOODS, INC., 6431 W. OAKTON, MORTON GROVE, IL 60053. With respect to the evaluation of director nominee candidates, the Board has no formal requirements or minimum standards for the individuals that it nominates. Rather, the Board considers each candidate on his or her own merits. However, in evaluating candidates, there are a number of factors that the Board generally views as relevant and is likely to consider, including the candidate's professional experience, his or her understanding of the business issues affecting the Company, his or her experience in facing issues generally of the level of sophistication that the Company faces, and his or her integrity and reputation. With respect to the identification of nominee candidates, the Board has not developed a formalized process. Instead, its members and the Company's senior management have recommended candidates whom they are aware of personally or by reputation.

The Company does not currently have a formal process for shareholders to send communication to the Board. In the opinion of the Board, it is appropriate for the Company not to have such a formal process in place because the Board believes there is currently not a need for a formal policy due to, among other things, the limited number of shareholders of the Company and the infrequency of such communications in the past. While the Board will, from time to time, review the need for a formal policy, at the present time, shareholders who wish to contact the Board may do so by submitting any communication to the Company at LIFEWAY FOODS, INC., 6431 W. OAKTON, MORTON GROVE, IL 60053 with an instruction to forward the communication to a particular Director or the Board as a whole.

During 2012 through the date of this Proxy Statement, Ludmila Smolyansky, Julie Smolyansky and Edward Smolyansky collectively controlled more than 50% of the voting power of our Common Stock. See “Security Ownership of Certain Beneficial Owners and Management,” below. Consequently, we are a “controlled company” under applicable Nasdaq rules. Under these rules, a “controlled company” may elect not to comply with certain Nasdaq corporate governance requirements, including requirements that: (i) a majority of the board of directors consist of independent directors; (ii) director nominees be selected or recommended to the board of directors for selection by a majority of the independent directors or by a nominating committee composed solely of independent directors; and (iii) compensation of officers be determined or recommended to the board of directors by a majority of its independent directors or by a compensation committee that is composed entirely of independent directors. We have elected to use each of these exemptions.

Oversight of Risk Management.

The Company’s management is responsible for assessing and managing Lifeway’s exposure to various risks. Responsibility for risk oversight by the Board of Directors lies with the entire Board. Therefore, the responsibility for the administration of this risk oversight lies primarily with the Board’s leadership.

The Company’s principal risks exist in the potential for rising milk prices, the Company’s primary raw material, and from competitors producing dairy-based probiotic products. The Board addresses at least annually the principal current and future risk exposures of the Company. The Board receives regular reports from members of senior management on areas of material risk to the Company, including operational, financial, legal and regulatory, and strategic and reputation risks.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, internal control and financial reporting practices of the Company. The Audit Committee consists of three directors, Messrs. Sikar,

Bernardi and Lee, each of whom is an independent director in accordance with the Securities and Exchange Act of 1934 (the "Exchange Act") and the Nasdaq listing standards. In accordance with the Exchange Act and the Nasdaq listing standards, Messrs. Sikar, Bernardi and Lee are the Company's only independent directors. Mr. Sikar is the Chairperson of the Audit Committee. Each of the Audit Committee members has an understanding of finance and accounting and is able to read and understand fundamental financial statements. To the extent Company employees are aware of any financial irregularities, the Audit Committee has been designated to receive such information in a confidential manner.

The Audit Committee reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2012 with the Company's management and the independent auditors, Plante & Moran, PLLC ("Plante"). Additionally, the Audit Committee discussed with Plante matters as required by the Statement of Auditing Standards No. 61, which included Plante's judgments as to the quality not just the acceptability of the financial statements, changes in accounting policies and sensitive accounting estimates.

Plante provided the Audit Committee with written disclosures and a letter required by Independence Standards Board Standard No. 1 ("ISB Standard No. 1"). ISB Standard No. 1 requires Plante to (i) disclose in writing all relationships between Plante and related entities and the Company and its related entities, in Plante's professional judgment, that may reasonably be thought to bear on independence; (ii) confirm that, in Plante's professional opinion, they are independent of the Company within the meaning of the federal securities laws and (iii) discuss Plante's independence with the Audit Committee. The Audit Committee discussed with Plante its independent status.

The Audit Committee amended and restated its written charter governing its actions effective December 17, 2003. The Audit Committee reviews and reassesses the charter annually. The Company is required to attach the charter as an appendix to the Company's proxy statement every three years and filed the charter with its proxy statement for the 2011 annual meeting.

Based on the Audit Committee's review of the year-end audited financial statements and the various discussions noted above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

The Audit Committee:
Pol Sikar, Director
Renzo Bernardi, Director
Paul Lee, Director

THE FOREGOING AUDIT COMMITTEE REPORT SHALL NOT BE "SOLICITING MATERIAL" OR BE DEEMED "FILED" WITH THE SEC, NOR SHALL SUCH INFORMATION BE INCORPORATED BY REFERENCE INTO ANY FILING UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE EXCHANGE ACT, EXCEPT TO THE EXTENT THE COMPANY SPECIFICALLY INCORPORATES IT BY REFERENCE INTO SUCH FILING.

AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

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.

EXECUTIVE COMPENSATION

Summary Compensation Table as of December 31, 2011 and December 31, 2012

Name	Year	Salary	Bonus	All other Comp.	Total
Julie Smolyansky, CEO and President(1)	2012	\$ 890,903	\$ 125,000	\$ 14,280	\$ 1,030,183
	2011	\$ 585,874	\$ 75,000	\$ 27,126	\$ 688,000
				(4)	
Edward P. Smolyansky, CFO, Chief Accounting Officer, Treasurer, Chief Operating Officer and Secretary (2)	2012	\$ 928,403	\$ 150,000	\$ 31,280	\$ 1,109,683
	2011	\$ 571,318	\$ 100,000	\$ 29,832	\$ 701,150
				(5)	

Valeriy Nikolenko, Vice President of Operations