



## **Lifeway Foods, Inc. Announces Results for the First Quarter Ended March 31, 2016**

*First Quarter Net Sales Increase 10% Year-Over-Year to \$32.6 Million*

**Morton Grove, IL — May 10, 2016** — Lifeway Foods, Inc., (Nasdaq: LWAY), the leading U.S. supplier of kefir cultured dairy products, today reported financial results for the first quarter ended March 31, 2016.

“We are pleased to announce an encouraging start to 2016 in which we achieved double-digit top-line revenue growth and a sequential increase in profitability,” said Julie Smolyansky, CEO of Lifeway Foods, Inc. “Our solid first quarter results demonstrate the success of our strategic initiatives. In addition, increased distribution and brand awareness of our probiotic and functional dairy health food products drove our improved operational and financial performance. This positive momentum has us well-positioned for growth and we are confident in our ability to increase value for our shareholders.”

### **First Quarter Results**

First quarter of 2016 net sales increased 10.0% to \$32.6 million from \$29.6 million in the first quarter of 2015. Gross sales increased 12% driven by higher sales of the Company’s Kefir products slightly offset by increased trade promotions and allowances.

Gross profit as a percent of net sales declined to 26.4% from 28.3% in the same period last year. The first quarter of 2016 gross margin decline reflects increased manufacturing costs primarily related to the ramp up of the Waukesha facility, which continued to expand its production volumes during the quarter. Milk prices were essentially flat versus the year ago period.

Selling expenses decreased approximately 10.8% to \$2.9 million during the first quarter of 2016 from \$3.3 million in the first quarter of 2015. The decrease in selling expenses reflects lower advertising programs. General and administrative expenses increased \$0.9 million to \$4.4 million from \$3.5 million compared to the same period last year primarily due to the increased professional fees associated with legal and regulatory functions.

Net income was approximately \$0.6 million, or \$0.04 per diluted share for the quarter ended March 31, 2016, consistent with the first quarter of 2015.

The effective tax rate for first quarter of 2016 was 38.8% compared to 49.9% in the first quarter of 2015. The lower tax rate in the first quarter of 2016 was driven by the deductibility of certain operating expenses for federal income tax purposes that were not fully deductible in 2015.

### **Balance Sheet**

Cash and cash equivalents were approximately \$3.8 million as of March 31, 2016 compared to cash and cash equivalents of \$5.6 million as of December 31, 2015 reflecting the unfavorable timing of payments to suppliers and service providers as well as share repurchase activity.

The Company repurchased approximately 39,000 shares of common stock at a cost of \$0.4 million in the three months ended March 31, 2016. Approximately 76,000 shares remained available to repurchase under this program as of March 31, 2016. The stock repurchase program has no expiration date and may be suspended or discontinued at any time.

### **Conference Call**

The Company will host a conference call to discuss these results with additional comments and details on Tuesday, May 10, 2016 at 4:30 p.m. ET. The call will be broadcast live over the Internet hosted at the Investor Relations section of Lifeway Foods' website at [www.lifewaykefir.com](http://www.lifewaykefir.com), and will be archived online through May 24, 2016. In addition, listeners may dial 877-407-3982 in North America, and international listeners may dial 201-493-6780. Participants from the Company will be Julie Smolyansky, President and Chief Executive Officer, Ed Smolyansky, Chief Operating Officer, and John Waldron, Chief Financial Officer.

### **About Lifeway Foods**

Lifeway Foods, Inc. (LWAY), recently named one of Forbes' Best Small Companies, is America's leading supplier of the probiotic fermented beverage known as kefir. In addition to its line of drinkable kefir, the company also produces frozen kefir, specialty cheeses and a ProBugs line for kids. Lifeway's tart and tangy cultured dairy products are available throughout the United States and on a small, but growing basis, in Canada, Latin America and the United Kingdom. Learn how Lifeway is good for more than just you at [www.lifewaykefir.com](http://www.lifewaykefir.com).

Find Lifeway Foods, Inc. on Facebook: [www.facebook.com/lifewaykefir](http://www.facebook.com/lifewaykefir)

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YouTube: <http://www.youtube.com/user/lifewaykefir>

### **Forward Looking Statements**

*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.*

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

	<b>March 31, 2016</b>	<b>December 31,</b>
	<b>(Unaudited)</b>	<b>2015</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,786	\$ 5,646
Investments, at fair value	2,484	2,216
Certificates of deposits in financial institutions	150	513
Inventories	8,291	7,664
Accounts receivable, net of allowance for doubtful accounts and discounts of \$1,600 and \$1,800 at March 31, 2016 and December 31, 2015 respectively	10,187	9,604
Prepaid expenses and other current assets	287	201
Deferred income taxes	532	556
Refundable income taxes	877	449
<b>Total current assets</b>	<b>26,594</b>	<b>26,849</b>
<b>Property and equipment, net</b>	<b>21,080</b>	<b>21,375</b>
<b>Intangible assets</b>		
Goodwill & indefinite-lived intangibles	14,068	14,068
Other intangible assets, net	2,166	2,344
<b>Total intangible assets</b>	<b>16,234</b>	<b>16,412</b>
<b>Other Assets</b>		
Long-term accounts receivable, net of current portion	270	282
<b>Total assets</b>	<b>\$ 64,178</b>	<b>\$ 64,918</b>
<b>Current liabilities</b>		
Current maturities of notes payable	\$ 840	\$ 840
Accounts payable	7,339	8,393
Accrued expenses	1,849	1,538
Accrued income taxes	—	52
<b>Total current liabilities</b>	<b>10,028</b>	<b>10,823</b>
<b>Notes payable</b>	<b>6,909</b>	<b>7,119</b>
<b>Deferred income taxes</b>	<b>1,719</b>	<b>1,719</b>
<b>Total liabilities</b>	<b>18,656</b>	<b>19,661</b>
<b>Stockholders' equity</b>		
Common stock, no par value; 40,000 shares authorized; 17,274, shares issued; 16,171 and 16,210 shares outstanding at March 31, 2016 and December 31, 2015 respectively	6,509	6,509
Paid-in-capital	2,054	2,033
Treasury stock, at cost	(10,170)	(9,730)
Retained earnings	47,164	46,516
Accumulated other comprehensive loss, net of taxes	(35)	(71)
<b>Total stockholders' equity</b>	<b>45,522</b>	<b>45,257</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 64,178</b>	<b>\$ 64,918</b>

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

	<u>2016</u>	<u>2015</u>
<b>Gross Sales</b>	\$ 37,030	\$ 33,103
Less: discounts and allowances	(4,460)	(3,481)
<b>Net sales</b>	<u>32,570</u>	<u>29,622</u>
Cost of goods sold	23,351	20,648
Depreciation expense	631	591
Total cost of goods sold	<u>23,982</u>	<u>21,239</u>
<b>Gross profit</b>	<u>8,588</u>	<u>8,383</u>
Selling expenses	2,944	3,302
General and administrative	4,356	3,492
Amortization expense	176	179
<b>Total operating expenses</b>	<u>7,476</u>	<u>6,973</u>
<b>Income from operations</b>	<u>1,112</u>	<u>1,410</u>
Other income (expense):		
Interest expense	(58)	(65)
Loss on sale of investments, net reclassified from OCI	(12)	(5)
Gain on sale of equipment	—	36
Impairment of investments	—	(180)
Other income (expense), net	17	108
Total other income (expense)	<u>(53)</u>	<u>(106)</u>
<b>Income before provision for income taxes</b>	<b>1,059</b>	<b>1,304</b>
Provision for income taxes	<u>411</u>	<u>650</u>
<b>Net income</b>	<u>\$ 648</u>	<u>\$ 654</u>
<b>Basic and diluted earnings per common share</b>	<u>\$ 0.04</u>	<u>\$ 0.04</u>
Weighted average number of shares outstanding	<u>16,189</u>	<u>16,346</u>
<b>COMPREHENSIVE INCOME</b>		
<b>Net income</b>	\$ 648	\$ 654
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on investments, net of \$(23) and \$23 of taxes	36	(35)
Reclassifications to earnings:		
Other than temporary impairment of investments, net of \$(76) of taxes	—	104
Realized (gains) losses on investments, net of \$-- and \$2 of taxes	—	(3)
<b>Comprehensive income</b>	<u>\$ 684</u>	<u>\$ 720</u>

**LIFEWAY FOODS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**For the Three Months Ended March 31, 2016 and 2015**  
**(Unaudited)**  
*(In thousands, except per share data)*

<u>Cash flows from operating activities:</u>	<u>2016</u>	<u>2015</u>
<b>Net income</b>	<b>\$ 648</b>	<b>\$ 654</b>
<i>Adjustments to reconcile net income to operating cash flow:</i>		
Depreciation and amortization	807	770
Loss on sale of investments, net	12	5
Impairment of investments	—	180
Deferred income taxes	—	(196)
Stock based compensation	21	—
(Gain) on sale of equipment	—	(36)
<i>(Increase) decrease in operating assets:</i>		
Accounts receivable	(584)	(33)
Inventories	(627)	(513)
Refundable income taxes	(427)	1,050
Prepaid expenses and other current assets	(71)	180
<i>Increase (decrease) in operating liabilities:</i>		
Accounts payable	(1,054)	(1,464)
Accrued expenses	311	1,395
Income taxes payable	(52)	145
<b>Net cash (used in) provided by operating activities</b>	<b><u>(1,016)</u></b>	<b><u>2,137</u></b>
 <u>Cash flows from investing activities:</u>		
Purchases of investments	(373)	(1,005)
Proceeds from sale of investments	152	693
Redemption of certificates of deposits	363	100
Investments in certificates of deposit	—	(85)
Purchases of property and equipment	(336)	(1,040)
Proceeds from sale of equipment	—	36
<b>Net cash used in investing activities</b>	<b><u>(194)</u></b>	<b><u>(1,301)</u></b>
 <u>Cash flows from financing activities:</u>		
Purchase of treasury stock	(440)	—
Repayment of notes payable	(210)	(271)
<b>Net cash used in financing activities</b>	<b><u>(650)</u></b>	<b><u>(271)</u></b>
 <b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,860)</b>	<b>565</b>
Cash and cash equivalents at the beginning of the year	5,646	3,260
<b>Cash and cash equivalents at the end of the year</b>	<b><u>\$ 3,786</u></b>	<b><u>\$ 3,825</u></b>
 <b>Supplemental cash flow information:</b>		
Cash paid for income taxes, net of refunds	<b><u>\$ 886</u></b>	<b><u>\$ 40</u></b>
Cash paid for interest	<b><u>\$ 58</u></b>	<b><u>\$ 65</u></b>