



Lifeway Foods Reports Financial Results for First Two Quarters of Fiscal 2015

Company Announces New Distribution Board Authorizes 250,000 Share Repurchase Program Record Cash Position

Morton Grove, IL — October 1, 2015 — Lifeway Foods, Inc., (Nasdaq: LWAY), a leading supplier of cultured dairy products known as kefir and organic kefir, reported financial results for the first two quarters of its fiscal 2015 ended March 31, 2015 and June 30, 2015, respectively.

“I am pleased with our team’s ability to increase distribution across retail channels fueled by new product innovation and heightened consumer awareness of Lifeway,” said Julie Smolyansky, CEO of Lifeway Foods, Inc. “While our recent net sales growth was hindered by capacity constraints in our Illinois facility, we believe we are well positioned to benefit in the second half of 2015 from new production capacity at our Wisconsin facility which began producing kefir in June. The new production capacity will allow us to have greater flexibility in our product offerings as we continue to grow the club channels and other non-traditional grocery outlets. We are very optimistic about our long-term growth opportunities as we expand into new and existing sales channels.”

Mrs. Smolyansky also stated, “We also announced that the Board of Directors authorized a stock repurchase program of up to 250,000 shares of the Company’s common stock. This repurchase program reflects our strong financial position and robust cash flows, our confidence in the strength of our business, and our commitment to increasing shareholder value.”

Operational Highlights

- Recent new distribution at 397 CVS Take Higher Health stores with approximately 500 stores expected by the end of 2015
- Lifeway’s new Protein Kefir, the company’s latest kefir innovation, has expanded distribution to Harris Teeter, Ingles, Acme Markets, and natural foods distributor UNFI, which supplies many grocers nationwide
- Lifeway’s ProBugs and new 16oz Protein Kefir will begin shipping nationwide to approximately 3,200 Walmart stores in the beginning of November
- New distribution to university cafeterias beginning with Ball State University
- Lifeway’s new 16oz kefir recently expanded distribution at Target with the store count increasing from approximately 949 to 1,700.

First Six Months of Fiscal 2015

Total consolidated net sales increased by \$0.7 million, or approximately 1%, to \$59.4

million during the six-month period ended June 30, 2015 from \$58.7 million during the same six-month period in 2014.

Cost of goods sold as a percentage of net sales, excluding depreciation expense, was approximately 72% during the first six months of fiscal 2015 compared to approximately 74% for the same period last year. This improvement was primarily driven by significantly lower milk prices, partially offset by costs associated with increased production at the Wisconsin facility as compared to the prior year period.

Selling expenses decreased approximately 5% to \$6.8 million during the first six months of 2015 from \$7.2 million in the first six months of 2014.

Provision for income taxes was \$0.8 million, or a 50.6% effective rate, for the first six months of 2015 compared to \$1.1 million, or a 53.4% effective tax rate, during the same period in 2014.

Net income was \$0.8 million or \$0.05 per share for the six-month period ended June 30, 2015 compared to \$1.0 million or \$0.06 per share in the same period in 2014.

Second Quarter Results

Second quarter 2015 total consolidated net sales increased 1% to \$29.8 million from \$29.6 million in the second quarter of 2014. The Company's second quarter net sales were impacted by significantly higher customer promotional allowances and kefir production capacity constraints.

Cost of goods sold as a percentage of net sales, excluding depreciation expense, was approximately 74% during the second quarter compared to approximately 73% for the same period last year. This increase was primarily driven by a significant increase in promotional allowances and discounts given to customers.

Selling expenses decreased approximately 29% to \$2.6 million during the second quarter of 2015 from \$3.7 million in the second quarter of 2014.

Provision for income taxes was \$0.1 million, or a 54.7% effective rate, for the second quarter of 2015 compared to \$0.8 million, or a 54.7% effective tax rate, during the same period in 2014.

Net income was \$0.1 million, or \$0.01 per diluted share, in the three-month period ended June 30, 2015 compared to net income of \$0.7 million, or \$0.04 per diluted share, in the same period in 2014.

First Quarter Results

First quarter 2015 total consolidated net sales increased approximately 2% to \$29.6 million from \$29.1 million in the first quarter of 2014.

Cost of goods sold as a percentage of net sales, excluding depreciation expense, was

approximately 70% during the first quarter compared to approximately 74% for the same period last year. This improvement was primarily driven by lower milk prices, partially offset by costs associated with increased production at the Wisconsin facility.

Selling expenses increased approximately 20% to \$4.2 million during the first quarter of 2015 from \$3.5 million in the first quarter of 2014. This increase was primarily attributable to increased advertising expenses of \$1.1 million associated with launch of the Company's first national TV commercial.

Provision for income taxes was \$0.7 million, or a 50% effective rate, for the first quarter of 2015 compared to \$0.3 million, or a 50% effective tax rate, during the same period in 2014.

Net income was \$0.7 million, or \$0.04 per diluted share, in the three-month period ended March 31, 2015 compared to \$0.3 million, or \$0.02 per diluted share, in the same period in 2014.

Cash Flow Highlights

The Company had record cash and cash equivalents of approximately \$5.9 million as of June 30, 2015 compared to cash and cash equivalents of \$3.3 million as of December 31, 2014. The Company also generated a record \$4.7 million in cash from operating activities in the first six-months of 2015.

Stock Repurchase Program

In September, the Company's Board of Directors authorized a stock repurchase program for up to 250,000 shares of common stock or up to \$3.5 million. The primary source of funds for stock repurchases will be cash flows from operations net of investing activities. Repurchases under the program may be made through open market transactions at prevailing market prices, with block trades permitted from time to time and in the discretion of the Company's management and as market conditions allow. The timing of the repurchases and the actual amount repurchased will depend on a variety of factors, including the amount of cash flow available for repurchases, the market price of Lifeway Food's shares and general market and economic conditions. No repurchases have been made under the program to date.

Conference Call

The Company will host a conference call to discuss these results with additional comments and details on Thursday, October 1, 2015 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.lifeway.net, and will be archived online through October 15, 2015. 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, and Edward Smolyansky, Chief Financial Officer and Chief Operating Officer, and John Waldron, Vice President of Finance.

About Lifeway Foods

Lifeway Foods (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 now sold across the United States, Canada, Latin America and the United Kingdom. Learn how Lifeway is good for more than just you at www.lifewaykefir.com.

Find Lifeway Foods, Inc. on Facebook: 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 Statements of Financial Condition
June 30, 2015 and December 31, 2014

| | June 30, | December 31, |
|---|----------------------|----------------------|
| | 2015 | 2014 |
| | (Unaudited) | |
| <u>ASSETS</u> | | |
| Current assets | | |
| Cash and cash equivalents | \$ 5,873,079 | \$ 3,260,244 |
| Investments, at fair value | 2,849,752 | 2,779,140 |
| Certificates of deposits in financial institutions | 434,981 | 149,965 |
| Inventories | 6,289,816 | 5,814,219 |
| Accounts receivable, net of allowance for doubtful accounts and discounts of \$2,100,000 and \$1,050,000 at June 30, 2015 and December 31, 2014, respectively | 10,349,813 | 10,213,541 |
| Prepaid expenses and other current assets | 113,751 | 251,922 |
| Other receivables | 28,794 | 134,338 |
| Deferred income taxes | 451,198 | 408,340 |
| Refundable income taxes | 741,302 | 1,140,796 |
| Total current assets | 27,132,486 | 24,152,505 |
| Property and equipment, net | 21,974,931 | 21,892,395 |
| Intangible assets | | |
| Goodwill | 14,068,091 | 14,068,091 |
| Other intangible assets, net | 2,701,925 | 3,059,764 |
| Total intangible assets | 16,770,016 | 17,127,855 |
| Other Assets | | |
| Long-term accounts receivable, net of current portion | 267,458 | 251,683 |
| Total assets | \$ 66,144,891 | \$ 63,424,438 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Current maturities of notes payable | \$ 840,000 | \$ 872,285 |
| Accounts payable | 5,725,222 | 5,586,755 |
| Accrued expenses | 4,702,762 | 2,066,076 |
| Accrued income taxes | 14,600 | — |
| Total current liabilities | 11,282,584 | 8,525,116 |
| Notes payable | 7,539,328 | 8,124,515 |
| Deferred income taxes | 1,812,296 | 2,075,095 |
| Total liabilities | 20,634,208 | 18,724,726 |
| Stockholders' equity | | |
| Common stock, no par value; 40,000,000 shares authorized; 17,273,776 shares issued; 16,346,017 shares outstanding at June 30, 2015 and December 31, 2014 | 6,509,267 | 6,509,267 |
| Paid-in-capital | 2,032,516 | 2,032,516 |
| Treasury stock, at cost | (8,187,682) | (8,187,682) |
| Retained earnings | 45,296,249 | 44,543,618 |
| Accumulated other comprehensive loss, net of taxes | (139,667) | (198,007) |
| Total stockholders' equity | 45,510,683 | 44,699,712 |
| Total liabilities and stockholders' equity | \$ 66,144,891 | \$ 63,424,438 |

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Income and Comprehensive Income
For the Three Months and Six Months Ended June 30, 2015 and 2014
(Unaudited)

| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30</u> | |
|--|------------------------------------|-------------------|---------------------------------|---------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Gross sales | \$ 36,291,842 | \$ 32,594,048 | \$ 69,394,925 | \$ 64,655,195 |
| Less: discounts and promotional allowances | (6,470,654) | (3,028,637) | (9,951,613) | (5,958,073) |
| Net sales | <u>29,821,188</u> | <u>29,565,411</u> | <u>59,443,312</u> | <u>58,697,122</u> |
| Cost of goods sold | 22,201,129 | 21,432,624 | 42,849,096 | 43,114,535 |
| Depreciation expense | 604,531 | 627,878 | 1,195,158 | 1,411,238 |
| Total cost of goods sold | <u>22,805,660</u> | <u>22,060,502</u> | <u>44,044,254</u> | <u>44,525,773</u> |
| Gross profit | 7,015,528 | 7,504,909 | 15,399,058 | 14,171,349 |
| Selling expenses | 2,617,399 | 3,693,821 | 6,779,802 | 7,173,509 |
| General and administrative | 4,170,155 | 2,107,197 | 6,802,051 | 4,487,827 |
| Amortization expense | 178,920 | 178,919 | 357,839 | 357,839 |
| Total operating expenses | 6,966,474 | 5,979,937 | 13,939,692 | 12,019,175 |
| Income from operations | 49,054 | 1,524,972 | 1,459,366 | 2,152,174 |
| Other income (expense): | | | | |
| Interest and dividend income | 35,739 | 35,227 | 61,218 | 63,925 |
| Rental income | 1,800 | 1,200 | 3,600 | 1,700 |
| Interest expense | (58,429) | (66,724) | (123,770) | (132,293) |
| (Loss)/Gain on sale of investments, net reclassified from OCI | (16,844) | 57,321 | (21,937) | 62,130 |
| Gain on sale of property and equipment | 207,083 | (76,484) | 243,083 | (76,484) |
| Other income (expense), net | 136 | 1,672 | (98,796) | 1,672 |
| Total other income (expense) | <u>169,485</u> | <u>(47,788)</u> | <u>63,398</u> | <u>(79,350)</u> |
| Income before provision for income taxes | 218,539 | 1,477,184 | 1,522,764 | 2,072,824 |
| Provision for income taxes | <u>119,626</u> | <u>807,768</u> | <u>770,133</u> | <u>1,106,229</u> |
| Net income | \$ 98,913 | \$ 669,416 | \$ 752,631 | \$ 966,595 |
| Basic and diluted earnings per common share | \$ 0.01 | \$ 0.04 | \$ 0.05 | \$ 0.06 |
| Weighted average number of common shares outstanding | 16,346,017 | 16,346,017 | 16,346,017 | 16,346,017 |
| COMPREHENSIVE INCOME | | | | |
| Net income | \$ 98,913 | \$ 669,416 | \$ 752,631 | \$ 966,595 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gains (losses) on investments (net of tax) | (18,215) | 63,111 | (64,475) | 71,155 |
| Less reclassification adjustment for (gains) losses and other than temporary impairments included in net income (net of taxes) | 10,435 | (34,393) | 122,815 | (37,110) |
| Comprehensive income | \$ 91,133 | \$ 698,134 | \$ 810,971 | \$ 1,000,640 |

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2015 and 2014
(Unaudited)

| | <u>June 30,</u> | |
|--|----------------------------|----------------------------|
| | <u>2015</u> | <u>2014</u> |
| <u>Cash flows from operating activities:</u> | | |
| Net income | \$ 752,631 | \$ 966,595 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation and amortization | 1,552,997 | 1,769,077 |
| Loss (gain) on sale of investments, net | 21,937 | (62,130) |
| Impairment of investments | 179,500 | — |
| Deferred income taxes | (351,818) | (440,285) |
| Bad debt expense | 250 | 156,049 |
| Gain on sale of property and equipment | (243,083) | 76,484 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | (166,829) | 728,281 |
| Other receivables | 105,544 | 46,591 |
| Inventories | (475,597) | 88,467 |
| Refundable income taxes | 399,494 | (562,986) |
| Prepaid expenses and other current assets | 138,171 | (28,125) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | 138,467 | (1,972,157) |
| Accrued expenses | 2,636,686 | 1,336,163 |
| Accrued income taxes | 14,600 | — |
| Net cash provided by operating activities | <u>4,702,950</u> | <u>2,102,024</u> |
| <u>Cash flows from investing activities:</u> | | |
| Purchases of investments | (1,286,664) | (1,774,734) |
| Proceeds from sale of investments | 1,133,647 | 1,419,362 |
| Redemption of certificates of deposits | 99,965 | 15,000 |
| Investments in certificates of deposits | (384,981) | — |
| Purchases of property and equipment | (1,377,390) | (1,761,401) |
| Proceeds from sale of property and equipment | 342,780 | 4,000 |
| Net cash used in investing activities | <u>(1,472,643)</u> | <u>(2,097,773)</u> |
| <u>Cash flows from financing activities:</u> | | |
| Repayment of notes payable | (617,472) | (441,221) |
| Net cash used in financing activities | <u>(617,472)</u> | <u>(441,221)</u> |
| Net (decrease) increase in cash and cash equivalents | 2,612,835 | (436,970) |
| Cash and cash equivalents at the beginning of the period | <u>3,260,244</u> | <u>3,306,608</u> |
| Cash and cash equivalents at the end of the period | <u>\$ 5,873,079</u> | <u>\$ 2,869,638</u> |
| Supplemental cash flow information | | |
| Cash paid for income taxes | <u>\$ 1,120,000</u> | <u>\$ 2,109,500</u> |
| Cash paid for interest | <u>\$ 124,043</u> | <u>\$ 132,415</u> |

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Income and Comprehensive Income
For the Three Months Ended March 31, 2015 and 2014
(Unaudited)

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------------|
| | 2015 | 2014 |
| Gross sales | \$ 33,103,084 | \$ 32,061,147 |
| Less: discounts and promotional allowances | (3,480,960) | (2,929,436) |
| Net sales | <u>29,622,124</u> | <u>29,131,711</u> |
| Cost of goods sold | 20,647,967 | 21,681,910 |
| Depreciation expense | 590,627 | 783,361 |
| Total cost of goods sold | <u>21,238,594</u> | <u>22,465,271</u> |
| Gross profit | 8,383,530 | 6,666,440 |
| Selling expenses | 4,162,403 | 3,479,688 |
| General and administrative | 2,631,896 | 2,380,631 |
| Amortization expense | 178,919 | 178,919 |
| Total operating expenses | 6,973,218 | 6,039,238 |
| Income from operations | 1,410,312 | 627,202 |
| Other income (expense): | | |
| Interest and dividend income | 25,479 | 28,698 |
| Rental income | 1,800 | 500 |
| Interest expense | (65,341) | (65,569) |
| (Loss)/Gain on sale of investments, net reclassified from OCI | (5,093) | 4,808 |
| Gain on sale of equipment | 36,000 | — |
| Other income (expense), net | (98,932) | — |
| Total other income (expense) | <u>(106,087)</u> | <u>(31,563)</u> |
| Income before provision for income taxes | 1,304,225 | 595,639 |
| Provision for income taxes | 650,507 | 298,461 |
| Net income | \$ 653,718 | \$ 297,178 |
| Basic and diluted earnings per common share | <u>0.04</u> | <u>0.02</u> |
| Weighted average number of common shares outstanding | <u>16,346,017</u> | <u>16,346,017</u> |
| <u>COMPREHENSIVE INCOME</u> | | |
| Net income | \$ 653,718 | \$ 297,178 |
| Other comprehensive income (loss), net of tax: | | |
| Unrealized gains (losses) on investments (net of tax) | (46,260) | 8,044 |
| Less reclassification adjustment for (gains) losses and other than temporary impairments included in net income (net of taxes) | 112,380 | (2,717) |
| Comprehensive income | \$ 719,838 | \$ 302,505 |