

Lifeway Foods, Inc.  
For Immediate Release

## Lifeway Foods Acquires Philadelphia Based Fresh Made Dairy, the Nations Second Largest Kefir Manufacturer

Morton Grove, IL, February 9, 2009 - Lifeway Foods, Inc., (NASDAQ: LWAY), makers of a nutritious, probiotic dairy beverage called Kefir, today announced the acquisition of Fresh Made Dairy, its top competitor in the Kefir market with a #2 overall market share. The acquisition strengthens Lifeway's presence in the rapidly growing market for probiotic kefir products. Fresh Made had 2008 total sales of approximately \$10 million.

"The major catalyst behind this acquisition is the growing demand for probiotic and functional dairy products," said Lifeway Foods' CEO Julie Smolyansky. "For over 20 years, both companies have spent a large amount of time, energy, and money fiercely competing against one another in the same market space. Today, with the completion of the acquisition, we couldn't be more excited about being able to shift our focus and combine our resources to growing and expanding the to whole probiotic category," Smolyansky added.

Edward Smolyansky, Lifeway Foods' CFO said, "This acquisition couldn't have come at a better time for Lifeway. Most of our input costs are at multi-year lows, including many of our production supplies, transportation costs, and most of our raw materials including the cost of milk. Milk prices are at multi year lows, with February, 2009 prices coming in at their lowest levels in 6 years. Additionally, with interest rates where they currently sit, the costs to finance a portion of the acquisition purchase price are also at all time lows. These factors should bolster Lifeway's already strong cash flows going forward, and at a time when so few companies are growing and expanding.

The synergies between the Lifeway and Fresh Made provide natural benefits to Lifeway's shareholders," Smolyansky added. "We serve the same customers, we share the same shelf space, we purchase the same raw materials, and we exhibit at the same trade shows. This transaction will enhance Lifeway's purchasing power, increase our ability to target our market category, and alleviate of the competitive pressures in our business" said Mr. Smolyansky.

"This also allows more distribution access to an important geographic market that was previously very difficult for Lifeway because local retailers were fiercely loyal to the local Fresh Made brand, just as we have a very strong advantage in our hometown of Chicago," she added. "This is a major step for Lifeway as we continue to drive the kefir phenomenon with great-tasting, healthy product lines. This elevates our competitive positioning in the marketplace and creates a tremendous footprint in the growing probiotic and functional dairy market."

Fresh Made brand kefir and other products will continue to be manufactured under Lifeway's direction from Fresh Made's existing 25,000-square-foot facility in Philadelphia, Pennsylvania, bringing the two top kefir brands under Lifeway's control. Excluding several top executives, all Fresh Made employees will continue to be retained.

The total purchase price of this transaction is \$13,785,000 million. Specifically, the terms include about \$10,050,000 in cash to be paid at the closing, \$2,735,000 in a debt note to be paid off quarterly over two years, and \$1 million worth of Lifeway's treasury shares, which will be equivalent to approximately 131,500 shares. Lifeway will retain approximately 420,000 treasury shares. Included in the total purchase price is approximately \$2,000,000 in real estate.

The agreement was signed February 5, 2009

### About Fresh Made Dairy

Fresh Made, Inc. was founded in 1982, and is a leading producer of kefir, and other specialty dairy products. The company's products are distributed throughout the United States and are offered for sale in both specialty European, as well as traditional, food markets, such as Whole Foods, Shop Rite, Acme, Safeway and other large supermarkets. Fresh Made's products are produced from the freshest milk delivered straight to its state-of-the-art production facility in Northeast Philadelphia.

The company's flagship product is kefir, a yogurt style drink which contains friendly "probiotic" bacteria. Fresh Made kefir is offered in 15 flavors and comes in reduced fat and non-fat varieties. In recent years, Fresh Made expanded its product line to include kefir and farmer's cheese under the Happy Kids label, thereby tapping into the multi-billion dollar children's food industry. The company also produces a USDA certified organic product line, thereby offering old-world flavors in a fresh and health conscious format. Fresh Made's products have been showcased on nationally syndicated television shows such as Martha Stewart Living and featured in a number of national publications.

Over the course of nearly three decades, Fresh Made has developed a trusted brand and a loyal customer base. What was once a two-person operation that produced a few cases of kefir each month is now a thriving member of the Philadelphia business community with 25 employees and 2008 gross sales of approximately \$10,000,000.

### 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 Soy Treat (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!.

For more information, contact Lifeway Foods, Inc. at (877) 281-3874 or e-mail at [info@lifeway.net](mailto: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.