



Lifeway Foods Announces Results for the First Quarter of 2012

First Quarter 2012 Net Sales Increase 12% to \$19.4 Million

Company Increases Retail Distribution

Morton Grove, IL — May 15, 2012—Lifeway Foods, Inc., (Nasdaq: LWAY), a leading supplier of cultured dairy products known as kefir and organic kefir, today announced results for the first quarter ended March 31, 2012.

First Quarter Results

First quarter of 2012 gross sales increased 13% to \$21.6 million compared to \$19.0 million for the first quarter of 2011. This increase is primarily attributable to increased sales and awareness of the Company's flagship line, Kefir, as well as ProBugs® Organic Kefir for kids and BioKefir™. In addition, Lifeway's Frozen Kefir line, which was launched in April 2011, contributed approximately \$0.7 million to sales during the first quarter of 2012.

Total consolidated net sales increased 12% or \$2.1 million to \$19.4 million during the three-month period ended March 31, 2012 from \$17.3 million during the same three-month period in 2011. Net sales are recorded as gross sales less promotional activities such as slotting fees paid, couponing, spoilage and promotional allowances as well as early payment terms given to customers.

Gross profit for the first quarter of 2012 decreased 11% to \$6.8 million, compared to \$9.7 million in the first quarter of the prior year. The Company's gross profit margin decreased to 35% in the first quarter versus 43% in the first quarter of 2011. The decrease was primarily attributable to a 30% increase in freight expense and higher fuel costs during the first quarter of 2012 when compared to the same period in 2011 and the increased cost of conventional and organic milk, the Company's largest raw material. The total cost of milk was approximately 20% higher during the first quarter 2012 when compared to the same period in 2011.

Total operating expenses increased 13% or \$0.6 million to \$4.9 million during the first quarter of 2012, from \$4.3 million during the same period in 2011. This increase was primarily attributable to increased selling expenses of \$0.4 million and partially offset by a decrease in amortization expense. This increase is directly attributable to increases in marketing and advertising of the Company's flagship line, Kefir, as well as ProBugs Organic Kefir for kids, BioKefir and Lifeway's Frozen Kefir.

Total operating income decreased 43% or \$1.4 million to \$1.9 million during the first quarter of 2012, from \$3.3 million during the same period in 2011. The decrease in operating income is related to the decrease in gross profit and the increased operating expenses previously outlined.

Income tax benefit was \$0.8 million for the first quarter of 2012 compared to \$1.3 million during the same period in 2011.

Total net income was \$1.1 million or \$0.07 per diluted share for the three-month period ended March 31, 2012 compared to \$1.9 million or \$0.12 per diluted share in the same period in 2011.

“We are pleased with our first quarter financial performance, despite the cost headwinds we experienced in the quarter, and believe our sales strong sales momentum will continue in 2012,” said Julie Smolyansky, CEO of Lifeway Foods, Inc. “This year, we expect increased distribution of our kefir products with our retail partners. Our recent expansion with Target exhibits the growing healthy living trend, consumers’ demand for nutritious products, and retailers increasingly expanding their product offerings to support consumer demand.”

Mrs. Smolyansky continued, “Going forward, we are very confident in our business and believe we should begin to realize lower milk prices in the second quarter of 2012. These results, combined with our consistently strong sales increases, should lead to record profitability for the year. Our executive team remains committed to increasing shareholder value through our first annual dividend and share repurchase program.”

Balance Sheet/Cash Flow Highlights

The Company had \$0.8 million in cash and cash equivalents as of March 31, 2012 compared to a \$1.1 million at December 31, 2011. Total stockholder’s equity was \$36.3 million as of March 31, 2012, which is an increase of \$1.6 million when compared to March 31, 2011. This is primarily due to an increase in retained earnings of \$2.0 million when compared to March 31, 2012.

Despite the lower net income for the three months ended March 31, 2012 as compared to the same period last year, net cash provided by operating activities increased \$0.4 million to \$1.5 million for the first quarter of 2012. This increase reflects the Company’s improvement in operating efficiencies.

2012 Dividend

The Company announced on May 3, 2012 that its Board of Directors declared an annual cash dividend of \$0.07 per common share. The dividend is payable on June 29, 2012 to shareholders of record as of the close of business on May 30, 2012. As of March 31, 2012, there were 16.4 million common shares outstanding.

Retail Expansion

Today, the Company also announced an agreement nearly tripling distribution of its kefir line in Target stores as well as adding new Lifeway products to Target’s dairy cases. Availability in Target will increase from 170 to 453 locations, with the addition of three flavors of 8-oz. Lifeway Kefir four-packs to Target’s offerings. This is the first major expansion with Target in

eight years.

The agreement covers multiple flavors and sizes of Lifeway Kefir, a probiotic drink similar to drinkable yogurt that is high in calcium and protein and low in fat in calories, as well as Lifeway ProBugs, children's line of Organic Kefir with a no-spill pouch and kid-friendly flavors like Goo Berry Pie. The company plans increased marketing and advertising support to raise awareness with Target customers and promote sales at the retail chain.

Conference Call

The Company will host a conference call to discuss these results with additional comments and details. The conference call is scheduled to begin at 4:30 p.m. ET on Tuesday, May 15, 2012. 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 May 29, 2012. 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.

About Lifeway Foods

Lifeway Foods, Inc. (LWAY), recently named one of Fortune Small Business' Fastest Growing Companies for the fifth consecutive year, is America's leading supplier of the cultured dairy products known as kefir and organic kefir. Lifeway Kefir is a dairy beverage that contains 10 exclusive live and active probiotic cultures plus ProBoost™. In addition to its line of Kefir products, the company produces a variety of Frozen Kefir and probiotic cheese products. Lifeway also sells frozen kefir, kefir smoothies and kefir parfaits through its Starfruit™ retail stores. For more information, visit <http://www.lifewaykefir.com> or follow Lifeway Foods on Facebook (www.facebook.com/lifewaykefir); Twitter (<http://twitter.com/lifewaykefir>); Pinterest (<http://pinterest.com/lifewaykefir>); Flickr (http://www.flickr.com/photos/Lifeway_Kefir) or 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.

Contact:

Lifeway Foods, Inc.
Phone: 877.281.3874
Email: info@Lifeway.net

Investor Relations:

ICR
Katie Turner
John Mills
646.277.1228

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