



Lifeway Foods Announces Results for the Second Quarter of 2013

Morton Grove, IL — August 14, 2013—Lifeway Foods, Inc., (Nasdaq: LWAY), a leading supplier of cultured dairy products known as kefir and organic kefir, today announced results for the second quarter ended June 30, 2013.

“We are pleased with our second quarter results as we continued to execute on our plan to increase distribution in new and existing retailers and strengthen awareness of our nutritious probiotic kefir products among health conscious consumers,” said Julie Smolyansky, CEO of Lifeway Foods, Inc. “In the quarter, we also focused on the integration of our new dairy manufacturing facility and we believe this will help expand our margins and support our future growth opportunities long-term. We look forward to this facility being fully operational at the end of the year.”

Second Quarter Results

Second quarter of 2013 gross sales increased 14% to \$25.8 million compared to \$22.7 million for the second quarter of 2012. 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™.

Total consolidated net sales increased 12% or \$2.5 million to \$23.1 million during the three-month period ended June 30, 2013 from \$20.6 million during the same three-month period in 2012. 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 second quarter of 2013 was \$7.6 million, unchanged compared to the second quarter of the prior year. The Company’s gross profit margin decreased to 33% in the second quarter versus 37% in the second quarter of 2012. The decrease was primarily attributable to a 20% increase in the cost of milk, the Company’s largest raw material, compared to the same period last year.

Total operating expenses increased 14% or \$0.6 million to \$5.1 million during the second quarter of 2013, from \$4.5 million during the same period in 2012. This increase was primarily attributable to an increase in general and administrative and selling expenses, partially offset by a decrease in amortization expense. The Company incurred \$0.3 million in professional fees related to the acquisition of the Golden Guernsey Dairy Plant, the Company’s new manufacturing facility, and views this as a non-recurring expense.

Total operating income decreased \$0.6 million to \$2.5 million during the second quarter of 2013, from \$3.1 million during the same period in 2012. The decrease in operating income is related to the decrease in gross profit and increased operating expenses.

The Company's second quarter 2013 effective tax rate was 45% compared to 34% in the same period last year.

Total net income was \$1.4 million or \$0.09 per diluted share for the three-month period ended June 30, 2013 compared to \$2.1 million or \$0.13 per diluted share in the same period in 2012.

Six Month Results

Total consolidated gross sales increased by \$9.2 million, or approximately 21%, to \$53.4 million during the six-month period ended June 30, 2013 from \$44.3 million during the same six-month period in 2012.

Total consolidated net sales increased by \$7.5 million, or approximately 19%, to \$47.5 million during the six-month period ended June 30, 2013 from \$40.0 million during the same six-month period in 2012.

Gross profit for the first six-months of 2013 increased 17% to \$16.0 million, compared to \$13.7 million in the same period in the prior year. The Company's gross profit margin was 34% in the first six-months of 2013, unchanged compared to the same period last year.

Total net income was \$3.8 million or \$0.23 per share for the six-month period ended June 30, 2013 compared to \$3.1 million or \$0.19 per share in the same period in 2012.

Balance Sheet/Cash Flow Highlights

The Company had \$4.9 million in cash and cash equivalents as of June 30, 2013 compared to \$2.0 million at June 30, 2012. Total stockholder's equity was \$41.7 million as of June 30, 2013, which is an increase of \$4.7 million when compared to June 30, 2012.

Net cash provided by operating activities increased \$0.9 million to \$5.0 million for the first six months of 2013. This increase reflects the Company's improvement in operating efficiencies.

Net cash used in investing activities was \$0.8 million during the six-months ended June 30, 2013 compared to net cash used in operating activities of \$0.6 million during the same period in 2012.

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 today, Wednesday, August 14, 2013. 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 August 28, 2013. 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.

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. Find Lifeway Foods, Inc. on Facebook: www.facebook.com/lifewaykefir Follow Lifeway Foods on Twitter: http://twitter.com/lifeway_kefir 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, 2013 and 2012 (Unaudited) and December 31, 2012

	(Unaudited)		December 31
	2013	2012	
	June 30		2012
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,939,948	\$ 2,000,325	\$ 2,286,226
Investments	2,483,673	1,867,234	1,869,888
Certificates of deposits in financial institutions	115,373	300,000	450,000
Inventories	7,807,150	5,426,715	5,939,186
Accounts receivable, net of allowance for doubtful accounts and discounts	9,911,305	9,486,141	8,723,737
Prepaid expenses and other current assets	31,797	96,860	97,138
Other receivables	5,400	104,009	8,825
Deposits	580,974	—	—
Deferred income taxes	391,139	512,260	234,687
Refundable income taxes	28,123	—	84,828
Total current assets	26,294,882	19,793,544	19,694,515
Property and equipment, net	14,718,760	14,865,789	14,986,776
Intangible assets			
Goodwill and other non amortizable brand assets	14,068,091	14,068,091	14,068,091
Other intangible assets, net of accumulated amortization of \$4,198,439 and \$3,465,349 at June 30, 2013 and 2012 and \$3,842,756 at December 31, 2012, respectively	4,107,561	4,840,652	4,463,242
Total intangible assets	18,175,652	18,908,743	18,531,333
Other Assets			
Long-term accounts receivable net of current portion	280,000	191,590	294,000
Total assets	\$59,469,294	\$53,759,666	\$53,506,624
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Checks written in excess of bank balances	\$ —	\$ 711,597	\$ —
Current maturities of notes payable	545,494	540,478	542,981
Accounts payable	7,166,377	4,769,851	4,256,725
Accrued expenses	1,094,820	593,412	1,155,677
Accrued income taxes	1,224,115	1,639,515	254,311
Total current liabilities	10,030,806	8,254,853	6,209,694
Notes payable	4,726,472	5,228,395	4,955,945
Deferred income taxes	3,018,629	3,240,826	3,028,518
Total liabilities	17,775,907	16,724,074	14,194,157
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, 2013; 17,273,776 shares issued; 16,372,217 shares outstanding at June 30, 2012; 17,273,776 shares issued; 16,346,017 shares outstanding at December 31, 2012	6,509,267	6,509,267	6,509,267
Paid-in-capital	2,032,516	2,032,516	2,032,516
Treasury stock, at cost	(8,187,682)	(7,947,418)	(8,187,682)
Retained earnings	41,366,495	36,429,095	38,904,777
Accumulated other comprehensive income (loss), net of taxes	(27,209)	12,132	53,591
Total stockholders' equity	41,693,387	37,035,592	39,312,469
Total liabilities and stockholders' equity	\$59,469,294	\$53,759,666	\$53,506,624

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Income and Comprehensive Income
For the Three and Six Months Ended June 30, 2013 and 2012 (unaudited)

	(Unaudited) Three Months Ended June 30, 2013		(Unaudited) Six Months Ended June 30, 2013	
	2013	2012	2013	2012
Sales	\$ 25,838,058	\$ 22,713,958	\$ 53,428,680	\$ 44,259,854
Less: discounts and allowances	(2,760,174)	(2,160,578)	(5,963,765)	(4,309,276)
Net sales	23,077,884	20,553,380	47,464,915	39,950,578
Cost of goods sold	15,058,461	12,522,609	30,607,446	25,429,331
Depreciation expense	421,707	413,109	815,832	812,154
Total cost of goods sold	15,480,168	12,935,718	31,423,278	26,241,485
Gross profit	7,597,716	7,617,662	16,041,637	13,709,093
Selling expenses	2,876,635	2,622,275	5,514,354	5,326,515
General and administrative	2,057,581	1,679,931	3,955,425	3,005,886
Amortization expense	177,842	188,705	355,683	377,409
Total operating expenses	5,112,058	4,490,911	9,825,462	8,709,810
Income from operations	2,485,658	3,126,751	6,216,175	4,999,283
Other income (expense):				
Interest and dividend income	30,622	24,478	45,631	36,049
Rental income	3,389	3,018	6,658	6,017
Interest expense	(37,424)	(43,918)	(73,723)	(94,103)
Gain (loss) on sale of investments, net, reclassified from OCI	56,944	4,406	121,280	22,390
Other Income	10,229	---	10,229	---
Total other income (expense)	63,760	(12,016)	110,075	(29,647)
Income before provision for income taxes	2,549,418	3,114,735	6,326,250	4,969,636
Provision for income taxes	1,145,478	1,065,607	2,556,671	1,825,520
Net income	<u>\$1,403,940</u>	<u>\$ 2,049,128</u>	<u>\$ 3,769,579</u>	<u>\$ 3,144,116</u>
Basic and diluted earnings per common share	<u>0.09</u>	<u>0.13</u>	<u>0.23</u>	<u>0.19</u>
Weighted average number of shares outstanding	<u>16,346,017</u>	<u>16,376,601</u>	<u>16,346,017</u>	<u>16,389,674</u>
<u>COMPREHENSIVE INCOME</u>				
Net income	\$1,403,940	\$ 2,049,128	\$ 3,769,579	\$ 3,144,116
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investments (net of tax)	(63,811)	(15,593)	(12,277)	33,730
Less reclassification adjustment for (gains) losses included in net income (net of taxes)	(32,174)	(2,489)	(68,523)	(12,650)
Comprehensive income	<u>\$1,307,955</u>	<u>\$ 2,031,046</u>	<u>\$ 3,688,779</u>	<u>\$ 3,165,196</u>

LIFEWAY FOODS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2013 and 2012 (Unaudited)

	(Unaudited)	
	June 30,	
	2013	2012
<u>Cash flows from operating activities:</u>		
Net income	\$ 3,769,579	\$ 3,144,116
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	1,171,515	1,189,563
Loss (gain) on sale of investments, net	(121,280)	(22,390)
Deferred income taxes	(104,133)	(480,311)
Bad Debt Expense	26,819	172,303
(Increase) decrease in operating assets:		
Accounts receivable	(1,211,015)	(1,610,208)
Other receivables	3,425	120,195
Inventories	(1,867,964)	(472,240)
Refundable income taxes	56,705	41,316
Prepaid expenses and other current assets	(515,633)	(17,230)
Increase (decrease) in operating liabilities:		
Accounts payable	2,909,652	383,612
Accrued expenses	(60,857)	39,687
Income taxes payable	969,804	1,639,515
Net cash provided by operating activities	5,026,617	4,127,928
<u>Cash flows from investing activities:</u>		
Purchases of investments	(2,573,721)	(743,675)
Proceeds from sale of investments	1,948,839	658,233
Redemption of certificates of deposits	334,627	—
Purchases of property and equipment	(547,819)	(478,428)
Net cash (used in) provided by investing activities	(838,074)	(563,870)
<u>Cash flows from financing activities:</u>		
Checks written in excess of bank balances	—	119,557
Purchases of treasury stock	—	(340,444)
Dividends Paid	(1,307,861)	(1,146,317)
Repayment of notes payable	(226,960)	(1,311,679)
Net cash used in financing activities	(1,534,821)	(2,678,883)
Net (decrease) increase in cash and cash equivalents	2,653,722	885,175
Cash and cash equivalents at the beginning of the period	2,286,226	1,115,150
Cash and cash equivalents at the end of the period	\$ 4,939,948	\$ 2,000,325