

**Lifeway Foods, Inc.**

For Immediate Release

**Lifeway Foods Inc. Reports Second Quarter and Six Month Results:  
Sales up 27%  
Net Income Up 29%**

Morton Grove, IL, August 15, 2005 - Lifeway Foods, Inc. (Nasdaq: LWAY) today reported financial results for the second quarter and six months ended June 30, 2005. Lifeway reported record 2nd<sup>q</sup> quarter revenues of \$5.07 million, up 27% from last year's second quarter revenues of \$4.00 million. Excluding the one-time sales to the Sav a Lot account, which accounted for \$160,600 in sales for second quarter 2004, the sales would have increased approximately 32 percent in 2005. Both gross profit and operating income increased by 22% over the same time period.

Net income was \$556,845 or \$.07 per share in 2005 versus a net income of \$432,109 or \$.07 per split-adjusted share in 2004.

For the six months period, revenues increased approximately 23% to \$9.73 million, compared to \$7.94 million during the same six month period in 2004. Net income was \$1.28 million or \$.15 per share, compared to \$1.20 or \$.14 per share during the same six month period in 2004.

Julie Smolyansky, CEO, states, "We are extremely pleased with our second quarter and six months results. We continue to grow our distribution in new channels, and sales from our existing customers also continued to increase. In addition, Target stores have been steadily reordering. We just recently entered into our first food service market set with distribution to Cosi restaurants, and in the coming months we hope to also enter into our first hospital/health care market."

Edward Smolyansky, CFO, commented, "The cost of milk, our largest cost of goods sold component remains at a relatively high historical value, the price has flattened out and looks to be fairly steady going forward." In addition, Ed Smolyansky added, "We continue to make capital investments in our production facility in an effort to streamline our operations and offset the high cost of raw materials, fuel and natural gas."

Lifeway, named as Forbes' 38<sup>th</sup> best small business and Fortune Small Business' 47th Fastest Growing Small Business, is America's leading supplier of the cultured dairy product known as kefir. Kefir is a milk-based beverage that contains ten types of "friendly," active probiotic cultures. While most yogurts only contain two or three of these cultures, Lifeway kefir products offer more nutritional benefits. Lifeway now offers 13 different flavors of its Kefir beverage, Organic Kefir and SoyTreat (a soy based 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 also produces a variety of cheese products and recently introduced an organic like of pudding called "It's Pudding!"

For more information, contact Julie Smolyansky, President, Lifeway Foods, Inc. at (847) 967-1010 or e-mail at [info@lifeway.net](mailto:info@lifeway.net) or visit [www.lifeway.net](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.

## Lifeway Foods, Inc.

### Condensed Consolidated Statement of Income

	(Unaudited)			
	Three Months Ended		Six Months Ended	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Sales	\$5,072,567	\$4,002,093	\$9,729,427	\$7,937,172
Cost of Goods Sold	2,956,267	2,265,802	5,534,223	4,365,000
Gross Profit	<u>2,116,300</u>	<u>1,736,291</u>	<u>4,195,204</u>	<u>3,572,172</u>
Operating Expenses	1,279,043	1,049,402	2,434,223	1,931,431
Income From Operations	837,257	686,889	1,760,981	1,640,741
Total other income	43,780	39,382	303,270	341,262
Pre-tax income	<b>881,037</b>	<b>726,271</b>	<b>2,064,251</b>	<b>1,982,003</b>
Income taxes	324,192	294,162	782,015	784,695
Net income	<b><u>556,845</u></b>	<b><u>432,109</u></b>	<b><u>1,282,236</u></b>	<b><u>1,197,308</u></b>
Per Share Earnings	<u>\$ .07</u>	<u>\$ .05</u>	<u>\$ .15</u>	<u>\$ .14</u>
Wtg. Ave. Shares	8,397,699	8,437,544	8,415,080	8,437,544

### Consolidated Balance Sheet

	(Unaudited)	
	Three Months Ended	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current Assets	\$ 12,426,524	\$ 15,219,589
Property, Plant, Equip.	7,757,150	3,531,856
Current Liabilities	1,099,320	991,900
Long-term Debt	454,046	447,084
<b>Stockholders Equity</b>	<b>\$18,701,680</b>	<b>\$16,877,624</b>