Taglich Brothers, Inc.
The Standard of Excellence in the Microcap Market

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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Lifeway Foods, Inc.

Rating: Neutral

Howard Halpern

April 14, 2004

LWAY $27.49 - (NasdaqNM)

	FYE (12/01)	FYE (12/02)	FYE (12/03)	***FYE (12/04) E***	***FYE (12/05) E***
Revenues (in millions)	$10.7	$12.2	$14.9	***$17.1***	***$19.9***
Earnings per share (diluted)*	$0.14	$0.18	$0.26	***$0.29***	***$0.37***

52week range*	$28.24 – $3.36	Fiscal year ends:	December
Shares outstanding*	8.44 million	Revenue/shares (TTM)*	$1.76
Trading float	2.36 million	Price/Sales (TTM)*	15.62X
Insider and institutional ownership	72.0%	Price/Sales (2004)*	11.75X
Tangible Book value/shr* a/o 12-31-03	$1.87	Price/Earnings (TTM)*	105.7X
Price/Book*	14.70X	Price/Earnings (2004)*	94.8X

* All per share figures reflect the 2-1 stock split effective March 9, 2004.

Lifeway Foods, Inc., is a manufacturer of cultured, probiotic and functional food products in the health food industry, and is America's leading supplier of the cultured dairy product known as Kefir. Their products are sold to health conscious consumers through health food stores and to the mass-market consumers through supermarkets. They currently have approximately 55 employees. Web site address is: www.kefir.com

Key investment considerations:

We are lowering our rating on LWAY to Neutral from Speculative Buy, primarily due to recent price gains (see price chart on page 6) and pending renewal of a Stockholders' Agreement with Danone by September 30, 2004.

Lifeway Foods market capitalization started the year at $57.1 million and increased to $179.8 million by the end of the first quarter of 2004. We anticipate that a period of consolidation is likely to occur.

The Company and Danone have not renewed the term of an existing Support Agreement that ended on December 31, 2003, due to the expectation of the parties that this and other agreements would be discussed and possibly renegotiated pending the expiration of an existing Stockholders' Agreement on September 30, 2004.

Lifeway Foods reported 2003 full year revenue of $14.878 million, which was an increase of 21.8% versus $12.212 million in 2003. Net income was $2.222 million or $0.26 per diluted share versus $1.529 million or $0.18 per diluted share in 2003.

Based on guidance offered in the Company's 2003 10K filing, we are adjusting our revenue estimate for 2004 to $17.1 million versus our prior estimate of $17.6 million. Our initial 2005 revenue estimate is $19.9 million or a 16.0% increase versus 2004.

Given our revenue estimates and statements made by Management in the Company's 10K filing, we are forecasting net income for 2004 of $2.430 million or $0.29 per diluted share. Our prior estimate called for net income of $2.998 million or $0.35 per diluted share. Our initial net income forecast for 2005 is $3.185 million or $0.37 per diluted share.

**** Please view our disclaimer located on page 9.***

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The Company

Lifeway Foods, Inc. (NasdaqNM: LWAY) manufactures a cultured dairy beverage called Kefir and also develops Kefir related products at its two manufacturing facilities in Illinois. Distribution of its twelve Kefir based products in Illinois are through approximately 1,200 local stores including major retail chains (i.e., Jewel Food Stores, Dominick's Finer Foods, Treasure Island Food Marts, Whole Foods, and independent retailers), via ten company owned trucks. Also, the Company distributes its products throughout the United States and to some parts of Canada (Ontario and Quebec), utilizing verbal distribution arrangements with a number of distributors. Management believes that verbal arrangements provide the necessary latitude to expand into new markets and establish new relationships on an ongoing basis.

Danone Foods, Inc., the U.S. subsidiary of Groupe Danone of Paris, France, has a 20% ownership interest in the Company. Since November 1999, its President and CEO, Thomas Bunz has served on Lifeway's Board of Directors.

On February 13, 2004, the Company's Board of Directors declared a two-for-one split of its common stock. The stock split was payable on March 8, 2004 (ex- March 9) to all stockholders of record as of February 27, 2004. *All per share figures in this report are post the 2-1 stock split.*

On March 19, 2004, the Company formed Lifeway Foods Canada, as a unit of its subsidiary, LFI Enterprises, Inc., for the purpose of investigating commercial opportunities in Quebec.

<u>*Kefir*</u>

Lifeway Kefir contains ten active "friendly" microorganisms and is probiotic* in nature because it promotes the growth of those microorganisms naturally. The product is a good source of calcium, protein, minerals, and vitamins (i.e. B-complex vitamins) and is highly digestible due to its acidity and enzymes. Kefir is similar to, but distinct from, yogurt. The fermentation process produces a less sour tasting product. Also, less sugar is required; therefore, the product contains fewer calories.

* Probiotics are defined as live cultures consumed for a health benefit. These cultures are comprised of one or more types of bacteria. Probiotic cultures have recently undergone controlled scientific investigations. The results lend some credence to the old folklore that suggests fermented dairy products that contain probiotic cultures are healthful.

Recent Financials

For the twelve months ended December 31, 2003 versus the same period last year:

- Revenue increased to $14.878 million versus $12.212 million;
- Operating expenses increased to $3.558 million versus $2.891 million;
- EBITDA increased to $4.167 million versus $3.385 million;
- Net income was $2.222 million or $0.26 per diluted share versus net income of $1.529 million or $0.18 per diluted share.

The year-over-year revenue increase of 21.8% was primarily attributable to:

- A new customer during the second half of the year. Management believes that approximately half of the revenue increase was attributable to Sav-A-Lot, Ltd., which purchased a significant amount of 8 oz. bottles of Lifeway's LaFruta line. Sav-A-Lot is the 13th largest grocery chain in the U.S. operating in excess of 1,000 food stores;
- Steady growth in the ethnic and natural foods markets; and
- Growth experienced by its distributors.

Gross margins increased to 47.30% versus 44.78% in the same period last year. The improvement in gross margins resulted from negotiated contracts with vendors and the purchase of raw materials in bulk (excluding milk). It is important to note that the improvement occurred in spite of slightly higher milk prices, which is the Company's largest raw material component.

Operating expenses, as a percentage of revenue, increased slightly to 23.92% versus 23.67% in 2002. The increase in operating expenses, on a percentage basis, was primarily due to:

- Higher costs related to the design and implementation of its new shrink-sleeve packaging;
- Increased professional services costs (i.e., enhanced legal and accounting compliance required for publicly traded companies under Sarbanes-Oxley Act); and
- Increased fuel costs;

In comparison, Taglich Brothers' estimates called for 2003 revenues of $14.797 million and net income of $2.405 million or $0.28 per diluted share.

Balance Sheet as of December 31, 2003

The Company had cash and cash equivalents of $4.598 million and short-term marketable securities of $6.303 million. This compares to cash and cash equivalents of $2.732 million and short-term marketable securities of $4.172 million as of December 31, 2002. Working capital was $14.011 million versus $8.561 million in 2002. The Company's long-term liabilities stood at $0.473 million.

During 2003, the Company finalized the disposition of one property, which resulted in a capital gain of approximately $1.2 million and disposed of certain impaired securities. The losses from the sales of securities occurred at a time when those losses could be matched with all of the gain from the real estate sale. These offsetting transactions allowed for the Company to continue transitioning its marketable securities into higher grade investments; which should strengthen the balance sheet.

In 2003 and the beginning of 2004, the Company has transitioned away from higher-risk securities towards larger cap value, higher dividend yielding, and tax–advantaged equities. The portfolio mix consists of:

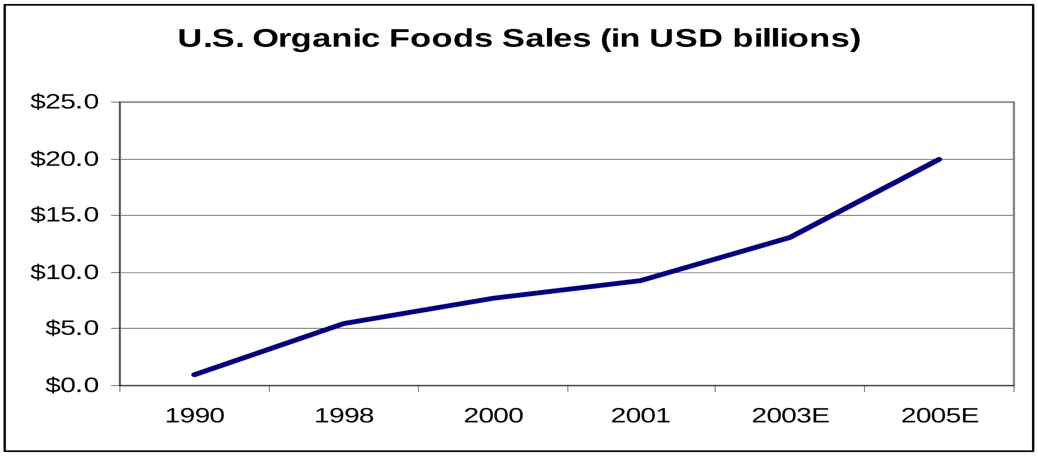
- 80% fixed income securities; and
- 20% equity investments. The investment mix is as follows;
  - 85% in large cap value stock;
  - 10% in small cap growth stocks; and
  - 5% in large cap growth stocks.

We believe that LWAY will be able to fund its sales growth from cash on hand and internally generated funds. Management is not aware of any circumstances or trends, which would have a negative impact upon future sales or earnings and that there have been no material fluctuations in the standard seasonal variation of the Company business.

Industry and Competition

It is estimated that Lifeway Foods' target market, the functional and probiotic foods segment of the Food Industry, generated revenue of $23 billion in 2002. Marketresearch.com predicts that by the end of the decade, the U.S. Functional Food Market will approach $30 billion. This would represent approximately 5.5% of the total Food Market. The Nutrition Business Journal estimates that the Functional Food Market currently represents 3.3% of the total U.S. Food Market.

In addition, the Company's organic products are targeting a market that generated approximately $9.0 billion of sales in 2002, according to Marketresearch.com. The chart below indicates the growth potential for this segment:



Source: Organic Trade Association; Natural Marketing Institute; Maketresearch.com

Outlook

We continue to believe that annual revenue growth will exceed 15%; therefore, revenue should reach $17.1 million in 2004, versus our prior estimate of $17.6 million. Our initial revenue estimate for 2005 is $19.9 million, which is a 16% increase from our 2004 estimate. Our revenue forecasts are based on:

- Consumers increased acceptance of the Company's products;
- Marketing initiatives such as:
  - Educating consumers about the potential beneficial uses of Kefir in the replenishment of 'good' bacteria in a person's intestinal system, especially after taking antibiotics or consuming alcohol;
  - Advertising in local newspapers (i.e., primarily in the Chicago area), in national magazines (i.e., Self, Shape, and Men's Fitness), and through local radio stations;
  - Product demonstrations in stores throughout the U.S.;
  - Sponsoring and participating in various local sporting events around the country and exhibiting at trade shows; and
- The Company building on its current distribution channel, which includes regional supermarket chains and/or regional super-center type stores;
- Introduction of new shrink-sleeve packaging for the Company's SoyTreat and Kefir product lines. The transition to this packaging should be completed during the third quarter of 2004; and
- Expansion of its La Fruta Product line in the Hispanic community. The U.S. Census Bureau, in a March 18, 2004 report, projects the nation's Hispanic population to grow from 35.6 million to 102.6 million over the next half century.

We are lowering our 2004 net income forecast to $2.430 million or $0.29 per diluted share from our prior forecast of $2.995 million or $0.35 per diluted share. Our reduced expectation is based on the following comments in the Company's 2003 10-K filing:

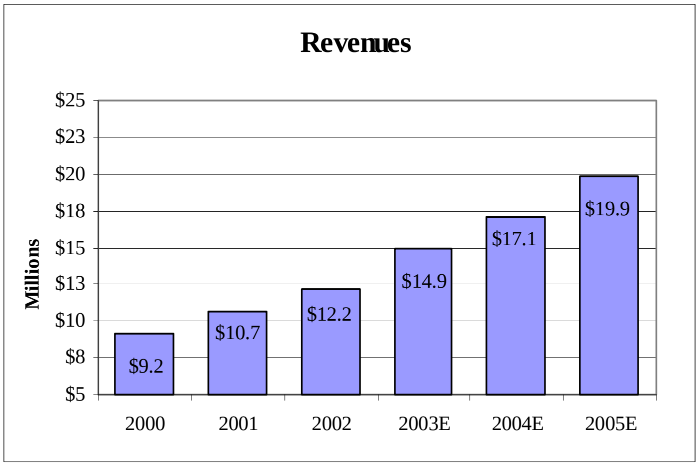
- The average price of milk likely to increase by 10-15 percent nationally in 2004, according the United States Department of Agriculture;
- Initial costs associated with new shrink-sleeve packaging;
- Impact of high fuel costs; and
- Higher professional services costs (i.e., legal, compliance with Sarbanes-Oxley, etc.).

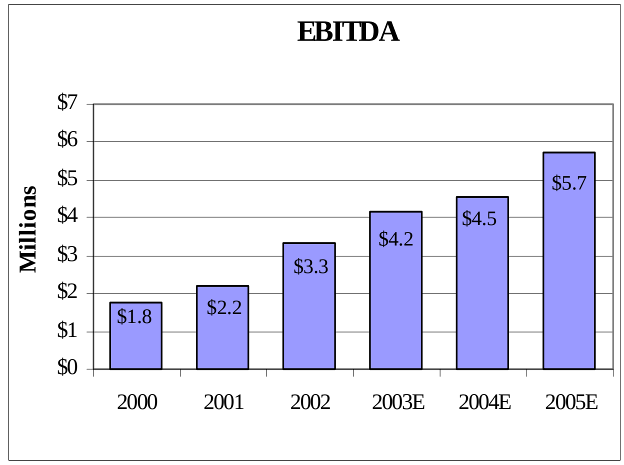
Therefore, we have adjusted the following from our prior forecast:

- Gross margins to 48.0% from 50.37%; and
- SG&A expenses, as a percentage of revenues, to 25.46% from 23.59%.

For 2005, our initial net income forecast is $3.185 million or $0.37 per diluted share based on gross margins of 48.8% and SG&A expenses, as a percentage of revenues, of 23.28%

The following chart shows our revenue and EBITDA projections:





Source: Company Filings and Taglich Brothers Estimates

Risks

Commodities

The Company's products use raw materials, such as milk, sugar, and fruit from unaffiliated suppliers. Lifeway is not limited or contractually bound to any supplier. The raw and packaging materials purchased by the Company are considered commodity items and are widely available on the open market. If the price of those commodity products were to unexpectedly rise in price, it could negatively impact margins.

Regulation

Lifeway is subject to regulation by federal, state and local governmental authorities regarding the distribution and sale of food products. Management believes that the Company is currently in compliance with all material government permits, licenses, qualifications and approvals for its operations; however, there can be no assurance that it will be able to maintain its existing licenses and permits. In addition, the Company believes that it is currently in compliance with all applicable environmental laws.

Also, the products exported to Canada are subject to strict quotas imposed by the Trade Control Policy Division of the Department of Foreign Affairs and International Trade of Canada. Management believes that the Company is in compliance with all applicable Canadian regulations.

Legal Issue

On April 14, 2003, Vera Smolansky (the Aunt of the Lifeway's CEO Julie Smolansky) filed a complaint seeking unspecified damages in the Circuit Court of Cook County, Illinois. The complainant names Lifeway Foods, Inc. as a defendant and alleges breaches of the Uniform Commercial Code, the Magnus-moss Warranty Act, and the Illinois Consumer Fraud Act with respect to the labeling of certain Lifeway products. The Company believes that the lawsuit is without merit and will vigorously defend itself against the claims made

Corporate Governance

Corporate governance may be an issue facing Lifeway Foods in light of new rules and regulation being issued by government regulatory agencies. This could mean that the Company will eventually be required to hire additional management personnel in order to diversify various operational functions.

Growth Management

We estimate that the LWAY will continue growing revenues in excess of 15% annually. As a result the Company will need to meet the challenges associated with growth, such as management of raw materials and increased production staff. If Lifeway Foods is not successful in meeting these challenges, revenue growth may slow in future periods.

Miscellaneous

The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

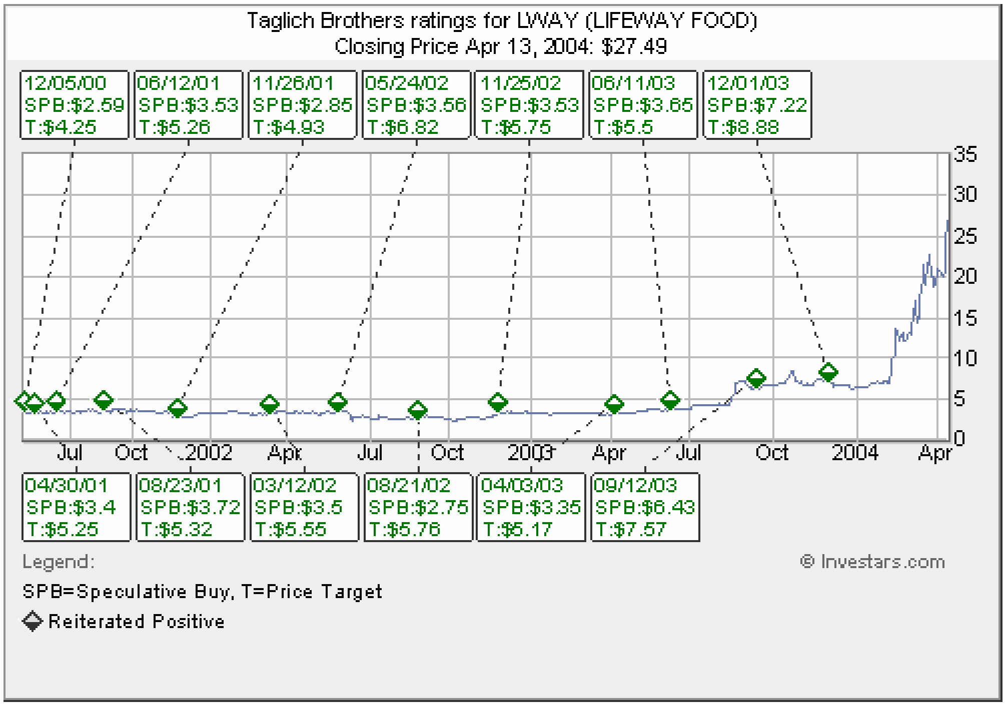
Liquidity has the potential to be a concern. Based on our calculations average daily-volume during 2003 increased to 4,451 shares from 1,943 shares in 2002. During the first three month of 2004, average volume increased significantly to 175,300 shares traded a day. Even though volume has increased, it is still relatively low; therefore, investors need to be aware that by nature a thinly traded equity can have significant price volatility.

Conclusion

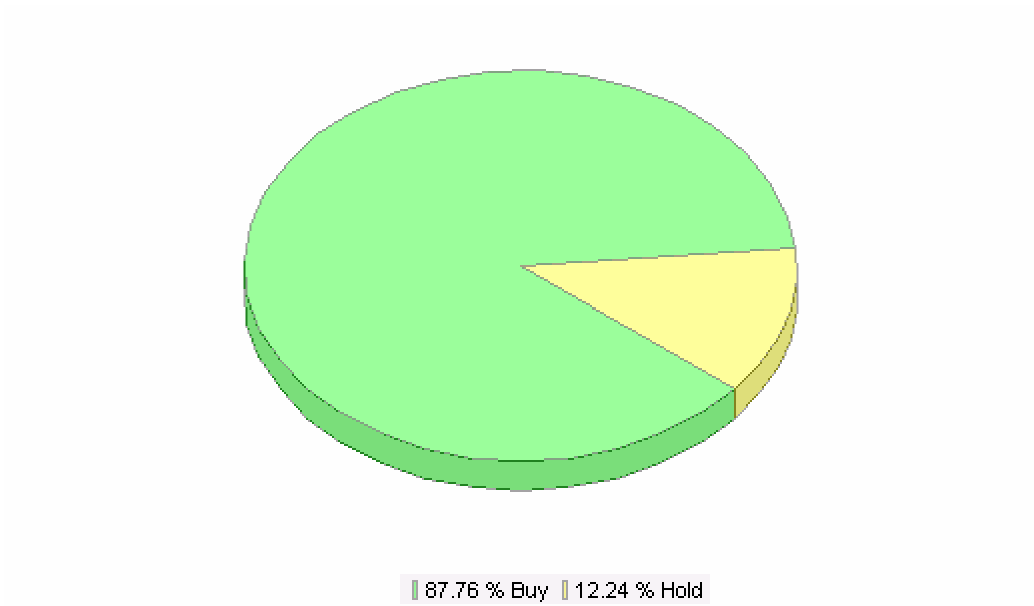
We are lowering our rating on LWAY to Neutral from Speculative Buy, primarily due to:

- The recent price gains (see the price chart on the next page). Between February 9, 2004 and March 31, 2004, Lifeway Foods market capitalization increased from $62.3 million to $179.7 million; and
- Pending renewal of a Stockholders' Agreement with Danone by September 30, 2004. The Company and Danone did not renew the term of an existing Support Agreement after December 31, 2003, due to the expectation of the parties that this and other agreements would be discussed and possibly renegotiated pending the expiration on September 30, 2004 of the Stockholder Agreement.

Investors should take note that after significant price gains in a short period of time, a period of consolidation often follows. It is our view that this type of scenario is likely to occur in shares of Lifeway Foods.



Taglich Brothers Current Ratings Distribution



<u>Meaning of Ratings</u>

Buy

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical "buy" recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

Public Companies mentioned in this report:

Groupe Danone (NYSE: DA)

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I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Lifeway Foods, Inc.
Consolidated Balance Sheets
(in thousands)

	Dec. 2000 Year End	Dec. 2001 Year End	Dec. 2002 Year End	Dec. 2003 Year End
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,437	$ 937	$ 2,732	$ 4,598
Marketable securities	4,850	5,755	4,172	6,303
Accounts receivable, net	1,182	1,317	1,435	1,800
Other receivables	-	53	60	166
Inventories	920	801	721	812
Prepaid income taxes	-	-	-	306
Prepaid expenses and other assets	-	34	1	1
Deferred income taxes	167	561	692	27
Total current assets	**8,556**	**9,456**	**9,813**	**14,012**
Property, plant and equipment, net	5,020	5,021	4,472	3,733
Total assets	**$ 13,575**	**$ 14,477**	**$ 14,285**	**$ 17,745**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Current maturities of notes payable	706	90	31	28
Margin account	-	432	-	-
Accounts payable	518	543	639	795
Accrued expenses	242	164	184	184
Taxes payable	65	145	398	-
Total current liabilities	**1,531**	**1,374**	**1,252**	**1,007**
Long-term liabilities	529	1,116	500	473
Deferred income taxes	376	436	453	472
Stockholders' equity:				
Common stock, no par value; authorized 10,000,000 shares	6,509	6,509	6,509	6,509
Stock subscription receivable	(15)	(15)	(15)	(15)
Retained earnings	4,851	6,072	7,600	9,822
Accumulated other comprehansive income, net of tax	(205)	(729)	(1,335)	156
Treasury stock, at cost	-	(287)	(680)	(680)
Total stockholders' equity	**11,140**	**11,550**	**12,080**	**15,793**
Total liabilities and stockholders' equity	**$ 13,575**	**$ 14,477**	**$ 14,285**	**$ 17,745**
SHARES OUT	8,636	8,538	8,437	8,437

Lifeway Foods, Inc.
Quarterly Income Statement Model
For the Years Ended December 31,
(in thousands)

	FY2000	FY2001	FY2002	FY2003	**FY2004E**	**FY2005E**
Revenue	$ 9,177	$ 10,684	$ 12,212	$ 14,878	**$ 17,125**	**$ 19,865**
Cost of goods sold	5,308	6,449	6,744	7,841	**8,905**	**10,170**
Gross Profit	3,869	4,235	5,468	7,037	**8,220**	**9,695**
Gross Margins	42.16%	39.64%	44.78%	47.30%	**48.00%**	**48.80%**
Sales, general and administrative	2,707	2,785	2,891	3,558	**4,360**	**4,625**
EBITDA	1,772	2,216	3,385	4,167	**4,545**	**5,745**
Operating Income	1,162	1,450	2,578	3,479	**3,860**	**5,070**
Operating Margin	12.66%	13.57%	21.11%	23.38%	**22.54%**	**25.52%**
Other Income (Expense)						
Interest income	369	235	187	97	**80**	**85**
Interest expense	(93)	(93)	(75)	(41)	**(40)**	**(35)**
Gain on sale of marketable securities	15	220	18	(1,294)	-	-
Other than temporary reduction of marketable securities	-	-	(236)	89	-	-
Gain on sale of assets	-	-	-	1,246	-	-
Total Other Income (Expense)	291	362	(105)	98	**40**	**50**
Pre-Tax Income	1,453	1,812	2,472	3,576	**3,900**	**5,120**
Pre-Tax Margins	15.84%	16.96%	20.24%	24.04%	**22.77%**	**25.77%**
Income Tax Expense (Benefit)	526	591	943	1,355	**1,470**	**1,935**
Tax Rate	36.21%	32.59%	38.16%	37.89%	**37.69%**	**37.79%**
Net Income	$ 927	$ 1,221	$ 1,529	$ 2,221	**$ 2,430**	**$ 3,185**
EPS -- Fully Diluted	$ 0.21	$ 0.28	$ 0.36	$ 0.26	**$ 0.29**	**$ 0.37**
Avg Shares Out-Fully Diluted *	8,636	8,636	8,531	8,437	**8,458**	**8,500**
Percent of Revenue						
Cost of Revenues	57.84%	60.36%	55.22%	52.70%	52.00%	51.20%
Sales, General and Administrative expenses	29.50%	26.07%	23.67%	23.92%	25.46%	23.28%
YEAR / YEAR GROWTH						
Total Revenues	16.05%	16.42%	14.30%	21.83%	15.10%	16.00%
Operating Income	9.12%	24.77%	79.34%	34.96%	10.96%	31.35%
Pre-Tax Income	35.86%	24.67%	36.47%	44.67%	9.05%	31.28%
Net Income	35.85%	31.75%	25.21%	45.31%	9.40%	31.07%

* Adjusted for the 2-1 stock split effective March 9, 2004

Lifeway Foods, Inc.
Quarterly Income Statement Model
For the Year Ended December 31, 2002
(in thousands)

	Q1(03/02)	Q2 (06/02)	Q3 (09/02)	Q4 (12/02)	**FY2002**
Revenue	$ 2,888	$ 3,003	$ 3,075	$ 3,247	**$ 12,212**
Cost of goods sold	1,523	1,761	1,586	1,874	**6,744**
Gross Profit	1,365	1,242	1,488	1,373	**5,468**
Gross Margins	*47.25%*	*41.37%*	*48.41%*	*42.29%*	**44.78%**
Operating Expenses:					
Sales, general and administrative	649	734	750	758	**2,891**
Total Operating Expenses	649	734	750	758	**2,891**
EBITDA	920	707	942	816	**3,385**
Operating Income	716	508	739	615	**2,578**
Operating Margin	*24.79%*	*16.92%*	*24.02%*	*18.94%*	**21.11%**
Other Income (Expense)					
Interest income	37	53	67	29	**187**
Interest expense	(20)	(19)	(19)	(16)	**(75)**
Gain on sale of marketable securities	36	3	(3)	(18)	**18**
Other than temporary reduction of marketable securities	-	-	-	(236)	**(236)**
Total Other Income (Expense)	53	37	45	(241)	**(105)**
Pre-Tax Income	769	545	783	374	**2,472**
Pre-Tax Margins	*26.64%*	*18.16%*	*25.48%*	*11.52%*	**20.24%**
Income Tax Expense (Benefit)	322	194	252	176	**943**
Tax Rate	*41.82%*	*35.52%*	*32.18%*	*47.05%*	**38.16%**
Net Income	$ 448	$ 352	$ 531	$ 198	**$ 1,529**
EPS -- Fully Diluted	$ 0.10	$ 0.08	$ 0.12	$ 0.05	**$ 0.36**
Avg Shares Out-Fully Diluted	4,270	4,269	4,269	4,255	**4,266**
Percent of Revenue					
Cost of Revenues	52.75%	58.63%	51.59%	57.71%	55.22%
Sales, General and Administrative expenses	22.46%	24.45%	24.39%	23.35%	23.67%
YEAR / YEAR GROWTH					
Total Revenues	9.54%	9.20%	15.51%	23.19%	14.30%
Operating Income	65.75%	53.23%	109.89%	91.06%	79.34%
Pre-Tax Income	36.37%	43.02%	75.31%	-10.77%	36.47%

Lifeway Foods, Inc.
Quarterly Income Statement Model
For the Year Ended December 31, 2003
(in thousands)

	Q1(03/03)	Q2 (06/03)	Q3 (09/03)	Q4 (12/03)	**FY2003**
Revenue	$ 3,309	$ 3,776	$ 3,837	$ 3,956	**$ 14,878**
Cost of goods sold	1,826	1,734	1,908	2,373	**7,841**
Gross Profit	1,483	2,042	1,929	1,583	**7,037**
Gross Margins	*44.81%*	*54.08%*	*50.28%*	*40.02%*	**47.30%**
Operating Expenses:					
Sales, general and administrative	845	938	871	904	**3,558**
Total Operating Expenses	845	938	871	904	**3,558**
EBITDA	803	1,279	1,232	853	**4,167**
Operating Income	638	1,104	1,058	679	**3,479**
Operating Margin	*19.28%*	*29.23%*	*27.58%*	*17.16%*	**23.38%**
Other Income (Expense)					
Interest income	33	37	25	2	**97**
Interest expense	(8)	(8)	(8)	(18)	**(41)**
Gain (loss) on sale of marketable securities	(347)	16	37	(1,000)	**(1,294)**
Other than temporary reduction of marketable securities	-	-	-	89	**89**
Gain (loss) on sale of assets	1,246	-	-	-	**1,246**
Total Other Income (Expense)	926	45	54	(927)	**98**
Pre-Tax Income	1,564	1,149	1,112	(248)	**3,576**
Pre-Tax Margins	*47.26%*	*30.42%*	*28.99%*	*-6.27%*	**24.04%**
Income Tax Expense (Benefit)	570	457	405	(78)	**1,355**
Tax Rate	*36.47%*	*39.83%*	*36.45%*	*31.46%*	**37.89%**
Net Income	$ 993	$ 691	$ 707	$ (170)	**$ 2,221**
EPS -- Fully Diluted	$ 0.12	$ 0.08	$ 0.08	$ (0.02)	**$ 0.26**
Avg Shares Out-Fully Diluted	8,437	8,437	8,437	8,436	**8,437**
Percent of Revenue					
Cost of Revenues	55.19%	45.92%	49.72%	59.98%	52.70%
Sales, General and Administrative expenses	25.53%	24.85%	22.70%	22.86%	23.92%
YEAR / YEAR GROWTH					
Total Revenues	14.57%	25.75%	24.78%	21.85%	21.83%
Operating Income	-10.90%	117.31%	43.28%	10.36%	34.96%
Pre-Tax Income	103.26%	110.61%	41.98%	-166.27%	44.67%
Net Income	121.93%	96.52%	33.03%	-185.77%	45.31%

Lifeway Foods, Inc.
Quarterly Income Statement Model
For the Years Ended December 31, 2004
(in thousands)

	Q1(03/04)E	Q2 (06/04)E	Q3 (09/04)E	Q4 (12/04)E	**FY2004E**
Revenue	$ 3,975	$ 4,200	$ 4,400	$ 4,550	**$ 17,125**
Cost of goods sold	2,175	2,050	2,225	2,455	**8,905**
Gross Profit	1,800	2,150	2,175	2,095	**8,220**
Gross Margins	*45.28%*	*51.19%*	*49.43%*	*46.04%*	**48.00%**
Operating Expenses:					
Sales, general and administrative	985	1,075	1,125	1,175	**4,360**
Total Operating Expenses	985	1,075	1,125	1,175	**4,360**
EBITDA	985	1,245	1,220	1,090	**4,545**
Operating Income	815	1,075	1,050	920	**3,860**
Operating Margin	*20.50%*	*25.60%*	*23.86%*	*20.22%*	**22.54%**
Other Income (Expense)					
Interest income	20	20	20	20	**80**
Interest expense	(10)	(10)	(10)	(10)	**(40)**
Total Other Income (Expense)	10	10	10	10	**40**
Pre-Tax Income	825	1,085	1,060	930	**3,900**
Pre-Tax Margins	*20.75%*	*25.83%*	*24.09%*	*20.44%*	**22.77%**
Income Tax Expense (Benefit)	310	410	400	350	**1,470**
Tax Rate	*37.58%*	*37.79%*	*37.74%*	*37.63%*	**37.69%**
Net Income	$ 515	$ 675	$ 660	$ 580	**$ 2,430**
EPS -- Fully Diluted	$ 0.06	$ 0.08	$ 0.08	$ 0.07	**$ 0.29**
Avg Shares Out-Fully Diluted	8,440	8,450	8,465	8,475	**8,458**
Percent of Revenue					
Cost of Revenues	54.72%	48.81%	50.57%	53.96%	52.00%
Sales, General and Administrative expenses	24.78%	25.60%	25.57%	25.82%	25.46%
YEAR / YEAR GROWTH					
Total Revenues	20.14%	11.23%	14.67%	15.01%	15.10%
Operating Income	27.75%	-2.61%	-0.77%	35.53%	10.96%

Lifeway Foods, Inc.
Cash Flow Statement
(in thousands)

	FY1999A	FY2000A	FY2001A	FY2002A	FY2003A
Cash Flows from Operating Activities					
Net Income	$ 682	$ 927	$ 1,221	$ 1,529	$ 2,222
Depreciation and amortization	441	610	777	808	688
Amortization of discounts on securities	(7)	-	-	-	-
Gain on sale of marketable securities	(7)	(15)	(250)	(18)	1,294
Gain on sale of assets	-	-	-	-	(1,246)
Other than temporary reductions of marketable securities	-	-	-	236	-
Issuance of common stock in exchange for services rendered	-	-	-	-	-
Decrease in allowance for doubtful accounts	-	-	-	-	-
Provision for doubtful accounts	-	-	15	-	-
Deferred income taxes	54	150	48	(65)	9
	1,165	1,672	1,812	2,490	2,967
Changes In:					
Accounts receivable	(118)	(216)	(150)	(119)	(365)
Other receivables	(41)	57	(53)	(8)	(106)
Inventories	8	(76)	119	80	(91)
Prepaid income taxes	-	-	-	-	(306)
Prepaid expenses and other assets	12	-	(34)	32	0
Accounts payable	(34)	(38)	26	96	156
Accrued expenses	26	50	(4)	20	0
Taxes payable	-	65	80	253	(398)
Net Changes in Working Capital	(148)	(158)	(15)	355	(1,109)
Net cash Provided by Operations	1,017	1,514	1,797	2,845	1,857
Cash Flows from Investing Activities					
Purchase of marketable securities	(1,846)	(8,808)	(9,247)	(3,316)	(4,284)
Sale of marketable securities	646	5,202	7,687	4,025	3,025
Sales of Assets	-	-	-	-	1,713
Change in margin account	-	75	357	(432)	-
Purchase of property, plant and equipment	(794)	(1,096)	(713)	(259)	(415)
Net cash used in Investing	(1,994)	(4,627)	(1,916)	17	39
Cash Flows from Financing Activities					
Repayment of notes payable	(96)	(91)	(94)	(675)	(31)
Proceeds from issuance of common stock	5,138	-	-	-	-
Purchase of treasury stock	-	-	(287)	(393)	-
Stock issuance costs	(52)	-	-	-	-
Net cash provided by Financing	4,990	(91)	(381)	(1,068)	(31)
Net change in Cash	4,013	(3,204)	(500)	1,795	1,867
Cash Beginning of Period	628	4,641	1,437	936	2,732
Cash End of Period	$ 4,641	$ 1,437	$ 936	$ 2,732	$ 4,598