



TAGLICH BROTHERS

The Standard of Excellence in the Microcap Market

Member: FINRA, SIPC

Earnings Note

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

Lifeway Foods, Inc.

Rating: Speculative Buy

Howard Halpern

LWAY \$12.68 – (NasdaqGM)

May 19, 2008

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. Web site address is: www.kefir.com

On May 15, 2008, Lifeway Foods announced 2008 first quarter results for the three-month period ended March 31, 2008. Below are the Company's results for the first quarter of 2008, compared to Taglich Brothers' estimates for same period (\$ thousands):

	Q1(03/08)A	Q1(03/08)E
Sales	\$ 11,122	\$ 11,100
Cost of goods sold	7,632	8,175
Gross Profit	3,491	2,925
<i>Gross Margins</i>	31.39%	26.35%
Operating Expenses:		
Total Operating Expenses	2,124	2,225
<i>EBITDA</i>	1,632	965
Operating Income	1,367	700
<i>Operating Margin</i>	12.29%	6.31%
Other Income (Expense)		
Total Other Income (Expense)	80	(30)
Pre-Tax Income	1,447	670
<i>Pre-Tax Margins</i>	13.01%	6.04%
Income Tax Expense (Benefit)	558	250
<i>Tax Rate</i>	38.57%	37.31%
Net Income	\$ 889	\$ 420
EPS -- Fully Diluted	\$ 0.05	\$ 0.02
Avg Shares Out-Fully Diluted	16,828	16,828
Year / Year Growth		
Total Revenues	23.28%	23.03%

** Please view our disclaimer located on page 5.*

405 Lexington Avenue, 51st Floor, New York, N.Y. 10174

(800) 383-8464 • Fax (631) 757-1333

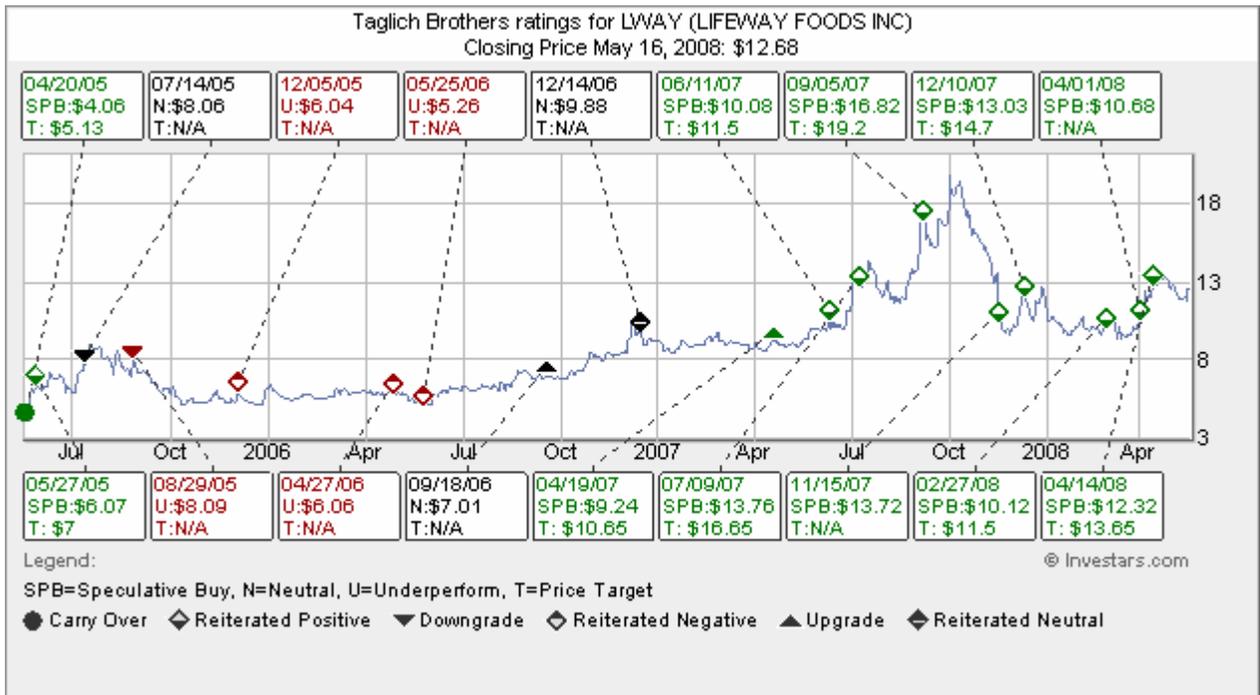
www.taglichbrothers.com

Estimate Analysis: Top line results were in line with the Company's pre-announcement, which occurred on April 1, 2008. The year-over-year growth of 23% was primarily driven by Lifeway's flagship Kefir line, ProBugs™ Organic kefir for Kids, and Helios Organic brand Kefir. The Company exceeded our bottom line forecast by \$0.469 million or \$0.03 per share. The better than anticipated bottom line results were due primarily to gross margin exceeding our forecast by 504 basis points, which means the Company was able to generate efficiencies in the face of relatively high milk prices.

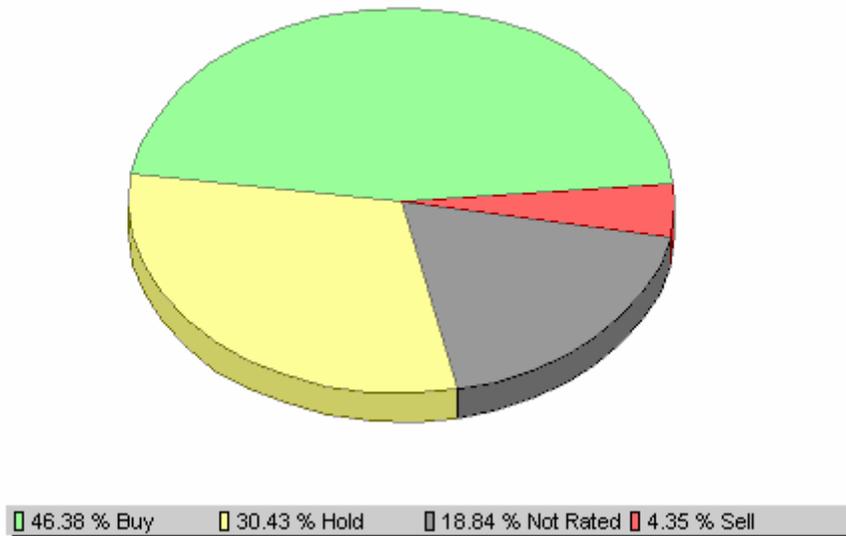
Rating: Currently, we are maintaining our Speculative Buy rating on Lifeway Foods.

Risks: Please review our latest research report (April 14, 2008) for a summary of the principal risks underlying the stock.

Lifeway Foods, Inc.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	0	0
Hold	1	6.67%
Sell	0	0
Not Rated	0	0

Meaning of Ratings

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.

* The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from the Director of Research.

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company with in the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. Since December 2000, the company pays a monthly monetary fee of \$1,500 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

I, Howard Halpern, the research analyst of this earnings note, hereby certify that the views expressed in this note 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.