



TAGLICHBROTHERS

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

May 20, 2009

LWAY \$10.80 – (NasdaqGM)

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 18, 2009, Lifeway Foods announced 2009 first quarter results for the three-month period ended March 31, 2009. Below are the Company's results for the first quarter of 2009, compared to Taglich Brothers' estimates for same period (\$ thousands):

	Q1(03/09)A	Q1(03/09)E	Q1(03/08)A
Sales	\$ 13,736	\$ 13,742	\$ 11,122
Cost of goods sold	8,217	10,625	7,632
Gross Profit	5,519	3,117	3,491
<i>Gross Margins</i>	40.18%	22.68%	31.39%
Operating Expenses:			
Total Operating Expenses	2,976	2,185	2,124
<i>EBITDA</i>	2,844	1,232	1,632
	2,161	1,155	
Operating Income	2,544	932	1,367
<i>Operating Margin</i>	18.52%	6.78%	12.29%
Other Income (Expense)			
Total Other Income (Expense)	(233)	(80)	80
Pre-Tax Income	2,311	852	1,447
<i>Pre-Tax Margins</i>	16.82%	6.20%	13.01%
Income Tax Expense (Benefit)	763	310	558
<i>Tax Rate</i>	33.04%	36.41%	38.57%
Net Income	\$ 1,547	\$ 542	\$ 889
EPS -- Fully Diluted	\$ 0.09	\$ 0.03	\$ 0.05
Avg Shares Out-Fully Diluted	16,847	16,740	16,815
Year / Year Growth			
Total Revenues	23.50%	23.55%	23.28%

** 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

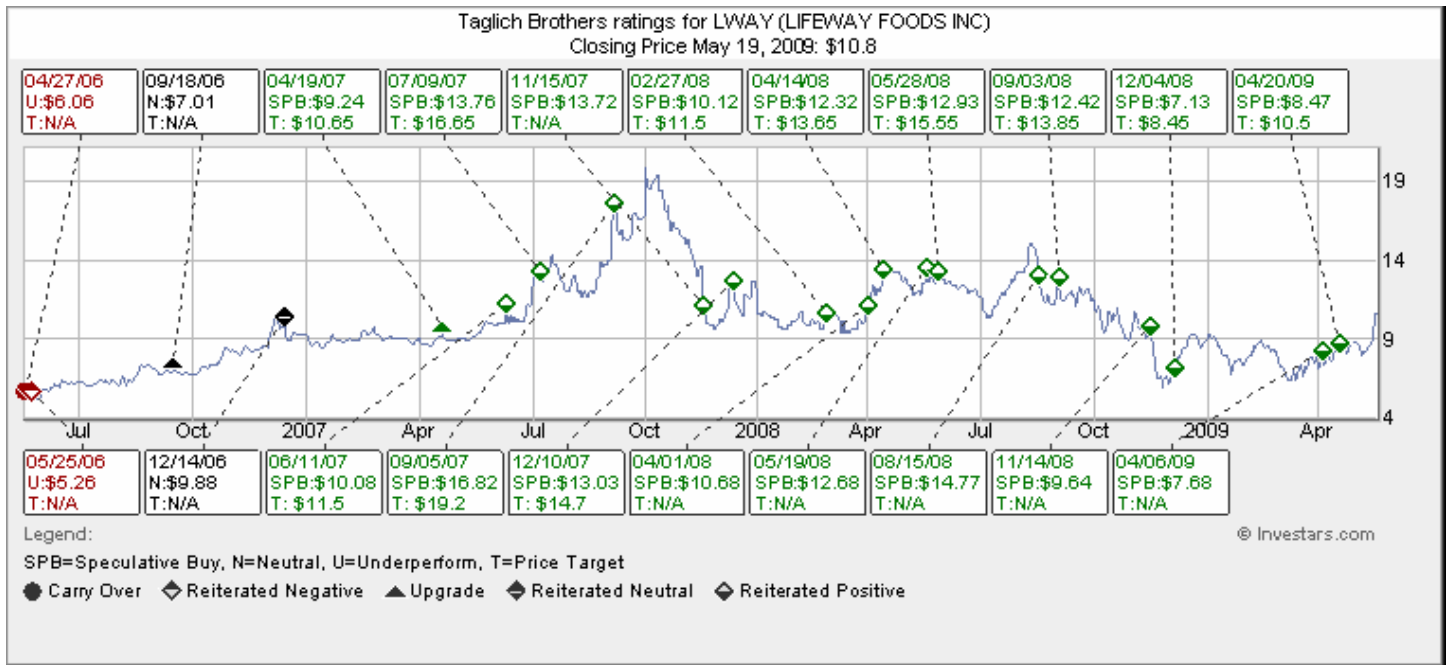
www.taglichbrothers.com

Estimate Analysis: Top line results were in line with the Company's pre-announcement, which occurred on April 7, 2009. The year-over-year growth of 23.5% was primarily driven by Lifeway's flagship Kefir line and ProBugs™ Organic kefir for Kids, as well as the February 7, 2009 acquisition of Fresh Made Dairy, which contributed \$1.391 million to the top line. The Company exceeded our bottom line forecast by \$1.005 million or \$0.06 per share. The better than anticipated bottom line was due in part to lower cost of sales (by approximately \$2.408 million), which more than offset higher operating expenses (approximately \$0.791 million).

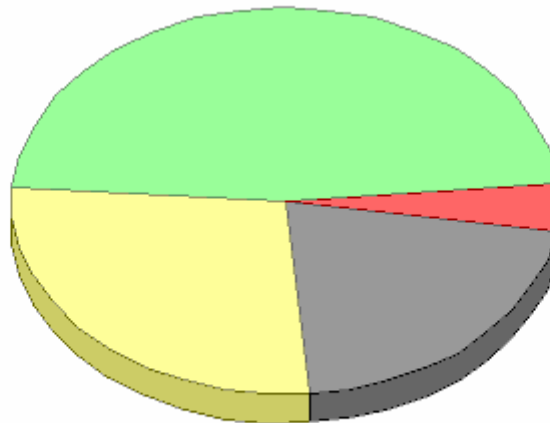
Rating: Currently, we are maintaining our Speculative Buy rating on Lifeway Foods.

Risks: Please review our latest research report (April 20, 2009) for a summary of the principal risks underlying the stock.

Lifeway Foods, Inc.



Taglich Brothers Current Ratings Distribution



■ 47.37 % Buy ■ 27.63 % Hold ■ 21.05 % Not Rated ■ 3.95 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	7.69%
Hold	0	0
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.

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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.