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: Speculative Buy

Howard Halpern
May 27, 2005

LWAY $12.15 - (NasdaqNM)

	FYE (12/03)A	FYE (12/04)A	*FYE (12/05) E*	*FYE (12/06) E*
Revenue (in millions)	$14.9	$16.32	***$20.26***	***$26.25***
Earnings per share (diluted)*	$0.26	$0.24	***$0.31***	***$0.39***

52week range	$20.31 – $7.11	Fiscal year ends:	December
Shares outstanding a/o 4/15/05	8.41 million	Revenue/shares (TTM)	$2.02
Trading float	2.22 million	Price/Sales (TTM)	6.01X
Insider and institutional ownership	73.6%	Price/Sales (2006)E	3.92X
Tangible Book value/shr a/o 03-31-05	$2.16	Price/Earnings (TTM)	50.6X
Price/Book	5.63X	Price/Earnings (2006)E	31.2X

* 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. Web site address is: www.kefir.com

Key investment considerations:

We are maintaining our Speculative Buy rating on shares of Lifeway Foods, Inc. (NasdaqNM: LWAY). Our rating is based on renewed growth prospects for top and bottom line results.

We are increasing our twelve-month price target to $14.00 per share from our prior twelve-month price target of $10.25 per share. Our price target is based on our 2005 earnings per share and EBITDA estimates.

Lifeway Foods reported first quarter 2005 revenue of $4.657 million, which was an increase of 18.4% versus $3.935 million in the same period last year. Net income was $0.725 million or $0.09 per diluted share versus $0.765 million or $0.09 per diluted share in the first quarter of 2004.

The Company and Danone have a Stockholders' Agreement that runs until December 30, 2005. At that time, investors should be cognizant that the term of the current non-competition covenant between Lifeway and Danone expires.

On May 24, 2005, Lifeway Foods announced that it formalized an agreement with Target Corporation (NYSE: TGT) to provide four flavors of its low fat Kefir to select Target stores.

Based on first quarter results and the recent announcement with Target, we are adjusting our revenue estimate for 2005 to $20.3 million from $20.3 million. Our initial 2006 revenue forecast is $26.25 million.

Given our revenue estimate, statements made by Management in the Company's earnings press release and 10-Q filing, as well as the Target agreement, we are increasing our 2005 forecast for net income to $2.596 million or $0.31 per diluted share from $2.55 million or $0.30 per diluted share. Our initial 2006 net income estimate is $3.265 million or $0.39 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. The Company's distribution of its fifteen Kefir-based products in Illinois is accomplished 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 twelve 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.

In addition, the Company distributes over 40 different assorted cream cheese products under the Cream Cheese Gourmet brand name in the Philadelphia metropolitan area. Those product offerings resulted from the acquisition of Ilya's Farms, Inc., a Philadelphia based producer of fine gourmet cream cheeses during the third quarter of 2004.

Danone Foods, Inc., the U.S. subsidiary of Groupe Danone of Paris, France, has a 20.5% ownership interest in the Company. According to the Company's SEC filings, Lifeway and Danone Foods, Inc. entered into an extension of an existing Stockholders' Agreement. The extension expires on December 30, 2005.

On May 20, 2005, the Company announced the introduction of a new line of all natural, organic pudding under the brand name It's Pudding!™. The product will be certified organic by Oregon Tilth and according to the Company will be the only organic pudding line available in the market.

On May 24, 2005, Lifeway Foods announced that it formalized an agreement with Target Corporation (NYSE: TGT) to provide four flavors of its low fat Kefir to select Target stores. According to the press release, Management is thrilled that it is expanding the availability of its product offering to a broader range of customers. According to the Company, the first shipment under this agreement took place during the week of May 23, 2005. In addition, a Company official was quoted in a Reuters.com news story that it will be sold in 100 to 200 of its stores.

Kefir

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 three-months ended March 31, 2005, versus the three-months ended March 31, 2004:

- Revenue increased to $4.657 million versus $3.935 million;
- Operating expenses increased to $1.155 million versus $0.882 million;
- EBITDA decreased to $1.064 million versus $1.110 million; and
- Net income was $0.725 million or $0.09 per diluted share versus net income of $0.765 million or $0.09 per diluted share.

The year-over-year revenue increase of 18.4% was primarily attributable to increased awareness of the Company's existing drinkable dairy products (i.e., La Fruta, and Kefir), as well as the impact of a price increase of between 10-15% instituted by the Company during the second half of 2004. Also, the Company's acquisition of Ilya's Farms, Inc., contributed $0.116 million to total revenue from the sale of gourmet cream cheese products. Gross margins decreased to 44.64% versus 46.65% in the same period last year. The reduction in gross margins resulted from higher milk prices versus the same period last year. Milk, which is the Company's largest component of cost of goods sold, was approximately 25% higher in price during first quarter of 2005 versus the same period last year. According to Management, even though milk prices impacted gross margins, the Company was able to mitigate the effect by more efficiently using other material components.

Operating expenses in the first quarter of 2005, as a percentage of revenue, increased to 24.81% versus 22.41% in the same period last year. The increase in operating expenses, on a percentage basis, was primarily due to increases in utility expenses and rising insurance and professional fees associated with the Sarbanes-Oxley Act, as well as other regulatory compliance requirements.

In comparison, Taglich Brothers' estimates called for revenues of $4.650 million and net income of $0.575 million or $0.07 per diluted share.

<u>*Balance Sheet as of March 31, 2005*</u>

The Company had cash and cash equivalents of $5.434 million and short-term marketable securities of $6.895 million. This compares to cash and cash equivalents of $5.773 million and short-term marketable securities of $6.742 million as of December 31, 2004. Working capital was $15.224 million versus $14.901 million in 2004. The Company's long-term liabilities stood at $0.461 million.

The Company's portfolio mix of marketable securities (at fair value as of March 31, 2005) consisted of:

- 45.0% fixed income securities; and
- 55.0% in equities and mutual funds.

In 2004, the Company transitioned away from higher-risk securities towards larger cap value, higher dividend yielding, and tax–advantaged equities.

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's business.

Market Comment

It is estimated that Lifeway Foods' target market, the functional and probiotic foods segment of the Food Industry, generates annual revenue in excess of $20 billion. Nutritionbusiness.com projects the U.S. Functional Food Market, reached $23.4 billion in 2004. In addition, 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 3.8% of the total U.S. Food Market.

Outlook/Projections

Management stated in the Company's first quarter earnings press release on May 16, 2005, that it was pleased with first quarter sales, especially considering that there were no sales in the current period to Sav-a-Lot, which in the same period of last year accounted for approximately $0.362 million of sales. Excluding the sales to Sav-a-Lot in the first quarter of last year, the year-over-year growth would have been approximately 30%.

Also, we believe that the Company's weekly sales run rate should steadily increase from a base range of $0.350 million to $0.400 million, primarily from increased orders from existing customers, as well as expanded distribution opportunities such as the recent agreement with Target. In addition, Management believes the Company's new packaging has improved point-of-sale education, as well as heightened visibility among mainstream consumers. Lifeway has also undertaken a new national print campaign featuring its low fat Kefir product in the May issue of Health Magazine and the June issue of Vegetarin Times. Management has also publicly stated that more ad placements will be forthcoming into 2006. Also, the Company's products were sampled at one of the largest club chains in the U.S. and Management has been in talks to expand the product line with other large retail and club outlets.

Based on first quarter results and the recent developments, we are adjusting our 2005 net income forecast to $2.596 million or $0.31 per diluted share based on revenue of $20.3 million. Our prior forecast was for net income of $2.550 million or $0.30 per diluted share based on revenue of $20.3 million. Our forecast incorporates the following:

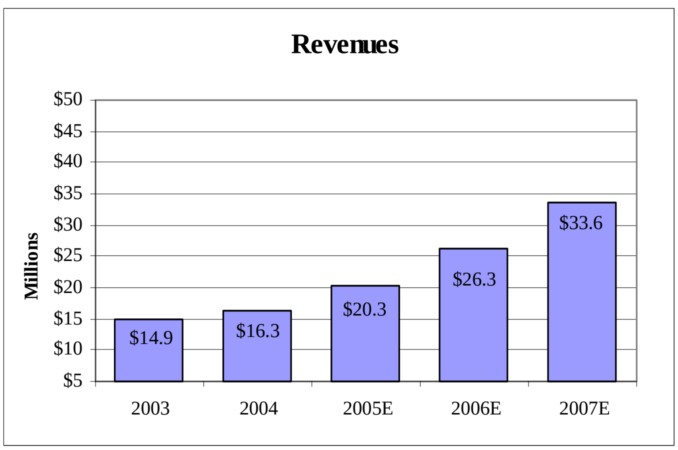
- The new distribution agreement with Target stores;
- The average price of milk stabilizing over the remaining three quarter of the year. During the first quarter of 2005, milk prices increased by approximately 25% versus the first quarter of 2004; and
- The continued high cost of being a public company (i.e., insurance, legal, and regulatory compliance).

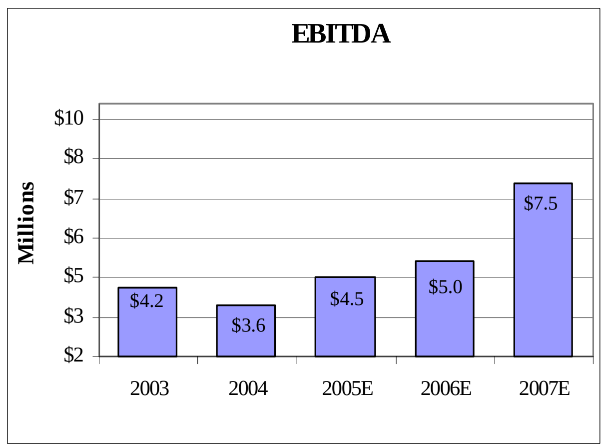
We have adjusted the following from our prior forecast:

- Gross margins to 44.46% from 45.62%; and
- SG&A expenses, as a percentage of revenues, to 25.89% from 26.35%.

Our initial 2006 forecasts, call for revenue growth of 29.55%, reaching $26.25 million and net income of $3.265 million or $0.39 per diluted share.

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, 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.

Groupe Danone SA Relationship

The Company has extended a previously agreed to Stockholders' Agreement with Danone until December 30, 2005. The agreement limits competition between the parties, as well as Groupe Danone not having more than a 20% ownership interest in Lifeway Foods common shares. The ability of Danone to sell, or the prospect of Danone being able to sell competing products could negatively impact future operations.

Legal Issue

On December 4, 2004, a former employee requested a motion for summary judgment on the issue of liability in a lawsuit filed against the Company by a former employee. The motion was granted on February 10, 2005 and on February 18, 2005 the case was referred to a Magistrate Judge for a settlement conference. The cause of action alleges non-payment of overtime wages in violation of federal employment laws, with an estimated amount between $7,500 and $15,000.

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 return to growing revenues in excess of 20% 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 2004, average volume increased significantly to 154,399 shares traded a day. During the first four months of 2005, average volume declined to 21,642 shares traded a day. Average daily volume remains relatively low; therefore, investors need to be aware that by nature a thinly traded equity can have significant price volatility.

Conclusion

We are maintaining our Speculative Buy rating on shares of Lifeway Foods, Inc. (NasdaqNM: LWAY). Our rating is based on renewed growth prospects for top and bottom line results.

We are increasing our twelve-month price target $14.00 per share from our prior twelve-month price target of $10.25 per share. Our price target is based on our revised earnings per share and EBITDA estimates.

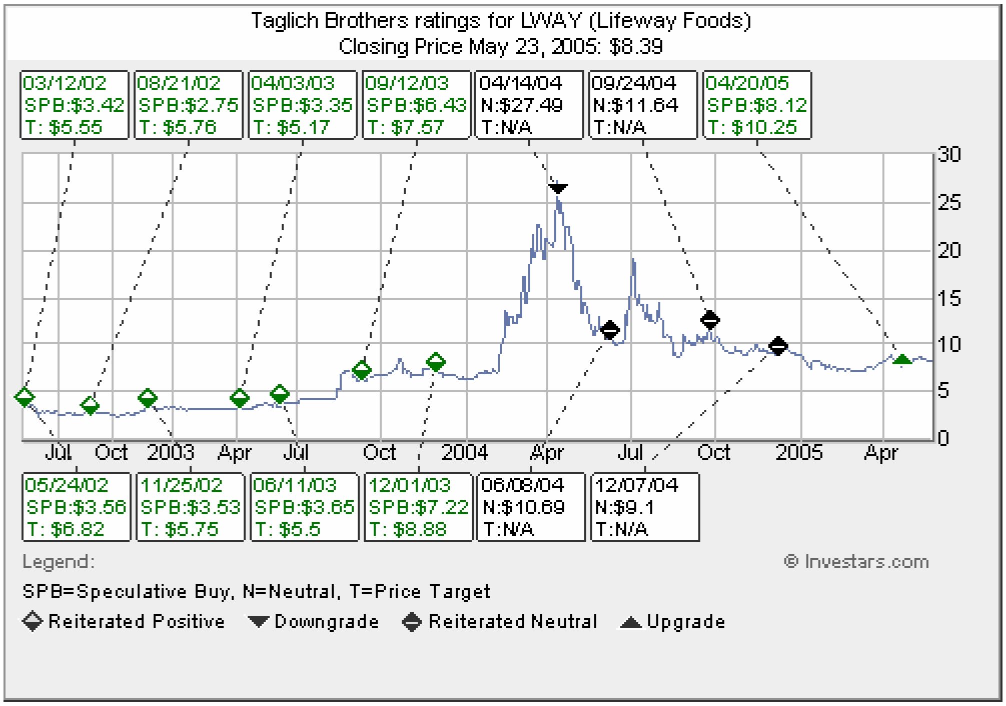
Based on our models, we are forecasting EBITDA of $4.505 million, $5.890 million, and $7.475 million, in 2005, 2006, and 2007, respectively.

We obtained our price target by averaging the following valuation models and discounted them by 15% to account for microcap risk and Company specific risks mentioned earlier:

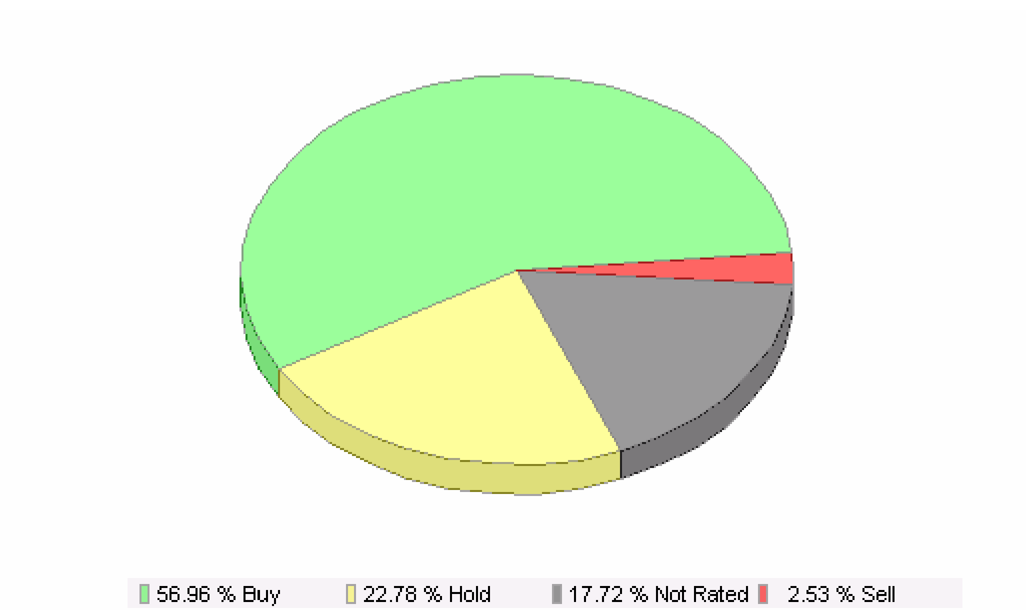
- A 28.8X P/E based on the Company's earnings per share compound annual growth rate between 2000 and 2006, applied to our earnings per share estimate of $0.39 for 2006; and

- A discounted cash flow model, using EBITDA as a proxy for cash flow and a 7.90% discount factor using the capital asset pricing model.

Investors should be aware that if the Federal Reserve continues increasing interest rates (over the last eight meetings it has increased rates 25 basis points each time), it is likely to have a negative impact on valuation multiples.



Taglich Brothers Current Ratings Distribution



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.

Public Companies mentioned in this report:

Groupe Danone (NYSE: DA)

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. 2002 Year End	Dec. 2003 Year End	Dec. 2004 Year End	Mar. 2005 1st Qtr End
ASSETS				
Current assets:				
Cash and cash equivalents	$ 2,732	$ 4,598	$ 5,773	$ 5,434
Marketable securities	4,172	6,303	6,742	6,895
Accounts receivable, net	1,435	1,800	2,024	2,523
Other receivables	60	166	72	106
Inventories	721	812	906	996
Prepaid income taxes	-	306	259	103
Prepaid expenses and other assets	1	1	7	-
Deferred income taxes	692	27	-	90
Total current assets	**9,813**	**14,012**	**15,783**	**16,147**
Property, plant and equipment, net	4,472	3,733	3,420	3,432
Total assets	**$ 14,285**	**$ 17,745**	**$ 19,688**	**$ 20,048**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Current maturities of notes payable	31	28	9	9
Accounts payable	639	795	642	789
Accrued expenses	184	184	196	125
Taxes payable	398	-	36	-
Total current liabilities	**1,252**	**1,007**	**882**	**923**
Long-term liabilities	500	473	464	461
Deferred income taxes	453	472	424	406
Stockholders' equity:				
Common stock, no par value; authorized 10,000,000 shares	6,509	6,509	6,509	6,509
Paid-in capital	-	-	64	72
Stock subscription receivable	(15)	(15)	-	-
Retained earnings	7,600	9,822	11,874	12,600
Accumulated other comprehansive income, net of tax	(1,335)	156	119	(53)
Treasury stock, at cost	(680)	(680)	(649)	(871)
Total stockholders' equity	**12,080**	**15,793**	**17,918**	**18,258**
Total liabilities and stockholders' equity	**$ 14,285**	**$ 17,745**	**$ 19,688**	**$ 20,048**
SHARES OUT	8,437	8,437	8,420	8,412

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

	FY2002	FY2003	FY2004	**FY2005E**	**FY2006E**
Revenue	$ 12,212	$ 14,878	$ 16,319	**$ 20,262**	**$ 26,250**
Cost of goods sold	6,744	7,841	9,035	**11,253**	**14,515**
Gross Profit	5,468	7,037	7,284	**9,009**	**11,735**
Gross Margins	44.78%	47.30%	44.64%	**44.46%**	**44.70%**
Sales, general and administrative	2,891	3,558	4,334	**5,245**	**6,695**
EBITDA	3,385	4,167	3,620	**4,505**	**5,890**
Operating Income	2,578	3,479	2,950	**3,764**	**5,040**
Operating Margin	21.11%	23.38%	18.08%	**18.58%**	**19.20%**
Other Income (Expense)					
Interest income	187	97	186	**280**	**350**
Interest expense	(75)	(41)	(31)	**(22)**	**(25)**
Gain on sale of marketable securities	18	(1,294)	354	**198**	-
Other than temporary reduction of marketable securities	(236)	89	(16)	**4**	-
Gain on sale of assets	-	1,246	-	-	-
Total Other Income (Expense)	(105)	98	492	**459**	**325**
Pre-Tax Income	2,472	3,576	3,442	**4,224**	**5,365**
Pre-Tax Margins	20.24%	24.04%	21.09%	**20.85%**	**20.44%**
Income Tax Expense (Benefit)	943	1,355	1,390	**1,628**	**2,100**
Tax Rate	38.16%	37.89%	40.39%	**38.54%**	**39.14%**
Net Income	$ 1,529	$ 2,221	$ 2,052	**$ 2,596**	**$ 3,265**
EPS -- Fully Diluted	$ 0.18	$ 0.26	$ 0.24	**$ 0.31**	**$ 0.39**
Avg Shares Out-Fully Diluted *	8,531	8,437	8,439	**8,443**	**8,475**
Percent of Revenue					
Cost of Revenues	55.22%	52.70%	55.36%	55.54%	55.30%
Sales, General and Administrative expenses	23.67%	23.92%	26.56%	25.89%	25.50%
YEAR / YEAR GROWTH					
Total Revenues	14.30%	21.83%	9.69%	24.16%	29.55%
Operating Income	79.34%	34.96%	-15.18%	27.58%	29.93%
Pre-Tax Income	36.47%	44.67%	-3.75%	22.71%	29.94%
Net Income	25.21%	45.31%	-7.62%	26.51%	25.77%

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

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

	Q1(03/04)A	Q2 (06/04)A	Q3 (09/04)A	Q4 (12/04)A	**FY2004A**
Revenue	$ 3,935	$ 4,002	$ 4,139	$ 4,243	**$ 16,319**
Cost of goods sold	2,099	2,266	2,240	2,430	**9,035**
Gross Profit	1,836	1,736	1,899	1,813	**7,284**
Gross Margins	*46.65%*	*43.38%*	*45.89%*	*42.73%*	**44.64%**
Operating Expenses:					
Sales, general and administrative	882	1,049	1,158	1,244	**4,334**
Total Operating Expenses	882	1,049	1,158	1,244	**4,334**
EBITDA	1,110	846	901	764	**3,620**
Operating Income	954	687	741	569	**2,950**
Operating Margin	*24.24%*	*17.16%*	*17.91%*	*13.40%*	**18.08%**
Other Income (Expense)					
Interest income	41	34	50	61	**186**
Interest expense	(8)	(8)	(8)	(8)	**(31)**
Total Other Income (Expense)	302	39	70	80	**492**
Pre-Tax Income	1,256	726	811	649	**3,442**
Pre-Tax Margins	*31.91%*	*18.15%*	*19.60%*	*15.29%*	**21.09%**
Income Tax Expense (Benefit)	491	294	296	309	**1,390**
Tax Rate	*39.06%*	*40.50%*	*36.51%*	*47.66%*	**40.39%**
Net Income	$ 765	$ 432	$ 515	$ 340	**$ 2,052**
EPS -- Fully Diluted	$ 0.09	$ 0.05	$ 0.06	$ 0.04	**$ 0.24**
Avg Shares Out-Fully Diluted	8,437	8,438	8,440	8,440	**8,439**
Percent of Revenue					
Cost of Revenues	53.35%	56.62%	54.11%	57.27%	55.36%
Sales, General and Administrative expenses	22.41%	26.22%	27.98%	29.33%	26.56%
YEAR / YEAR GROWTH					
Total Revenues	18.94%	5.99%	7.86%	7.26%	9.69%

Lifeway Foods, Inc.
Quarterly Income Statement Model
For the Years Ended December 31, 2005
(in thousands)

	Q1(03/05)A	Q2 (06/05)E	Q3 (09/05)E	Q4 (12/05)E	**FY2005E**
Revenue	$ 4,657	$ 4,700	$ 5,380	$ 5,525	**$ 20,262**
Cost of goods sold	2,578	2,675	2,840	3,160	**11,253**
Gross Profit	2,079	2,025	2,540	2,365	**9,009**
Gross Margins	*44.64%*	*43.09%*	*47.21%*	*42.80%*	**44.46%**
Operating Expenses:					
Sales, general and administrative	1,155	1,225	1,380	1,485	**5,245**
Total Operating Expenses	1,155	1,225	1,380	1,485	**5,245**
EBITDA	1,064	1,000	1,360	1,080	**4,505**
Operating Income	924	800	1,160	880	**3,764**
Operating Margin	*19.84%*	*17.03%*	*21.56%*	*15.93%*	**18.58%**
Other Income (Expense)					
Interest income	65	70	70	75	**280**
Interest expense	(7)	(5)	(5)	(5)	**(22)**
Total Other Income (Expense)	259	65	65	70	**459**
Pre-Tax Income	1,183	865	1,225	950	**4,224**
Pre-Tax Margins	*25.41%*	*18.41%*	*22.77%*	*17.19%*	**20.85%**
Income Tax Expense (Benefit)	458	330	470	370	**1,628**
Tax Rate	*38.69%*	*38.13%*	*38.36%*	*38.95%*	**38.54%**
Net Income	$ 725	$ 535	$ 755	$ 580	**$ 2,596**
EPS -- Fully Diluted	$ 0.09	$ 0.06	$ 0.09	$ 0.07	**$ 0.31**
Avg Shares Out-Fully Diluted	8,433	8,440	8,445	8,455	**8,443**
Percent of Revenue					
Cost of Revenues	55.36%	56.91%	52.79%	57.20%	55.54%
Sales, General and Administrative expenses	24.81%	26.06%	25.65%	26.88%	25.89%
YEAR / YEAR GROWTH					
Total Revenues	18.34%	17.45%	30.00%	30.20%	24.16%

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

	FY2002A	FY2003A	FY2004A	Q1 2005A
Cash Flows from Operating Activities				
Net Income	$ 1,529	$ 2,222	$ 2,052	$ 725
Depreciation and amortization	808	688	670	141
Gain on sale of marketable securities	(18)	1,294	(354)	(198)
Loss on marketable securities classified as trading	-	-	16	(4)
Gain on sale of assets	-	(1,246)	-	-
Other than temporary reductions of marketable securities	236	-	-	-
Issuance of common stock in exchange for services rendered	-	-	95	12
Deferred income taxes	(65)	9	46	(22)
	2,490	2,967	2,525	654
Changes In:				
Accounts receivable	(119)	(365)	(224)	(499)
Other receivables	(8)	(106)	94	(34)
Inventories	80	(91)	(94)	(91)
Prepaid income taxes	-	(306)	48	155
Prepaid expenses and other assets	32	0	(6)	7
Accounts payable	96	156	(154)	148
Accrued expenses	20	0	12	(71)
Taxes payable	253	(398)	-	-
Net Changes in Working Capital	355	(1,109)	(325)	(384)
Net cash Provided by Operations	2,845	1,857	2,200	270
Cash Flows from Investing Activities				
Purchase of marketable securities	(3,316)	(4,284)	(6,266)	(1,911)
Sale of marketable securities	4,025	3,025	6,097	1,666
Sales of Assets	-	1,713	-	-
Change in margin account	(432)	-	-	-
Acuisition of Ilya's Farms, Inc., net of assets acquired	-	-	(512)	-
Purchase of property, plant and equipment	(259)	(415)	(330)	(137)
Net cash used in Investing	17	39	(1,011)	(381)
Cash Flows from Financing Activities				
Repayment of notes payable	(675)	(31)	(28)	(2)
Proceeds from issuance of common stock	-	-	15	-
Purchase of treasury stock	(393)	-	-	(226)
Net cash provided by Financing	(1,068)	(31)	(13)	(228)
Net change in Cash	1,795	1,867	1,175	(339)
Cash Beginning of Period	936	2,732	4,598	5,773
Cash End of Period	$ 2,732	$ 4,598	$ 5,773	$ 5,434