



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

August 15, 2008

LWAY \$14.77 – (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 August 14, 2008, Lifeway Foods announced 2008 second quarter results for the three-month period ended June 30, 2008. Below are the Company's results for the second quarter of 2008, compared to Taglich Brothers' estimates for same period (\$ thousands):

	Q2 (06/08)A	Q2 (06/08)E
Sales	\$ 11,523	\$ 12,025
Cost of goods sold	7,651	8,190
Gross Profit	3,873	3,835
<i>Gross Margins</i>	33.61%	31.89%
Operating Expenses:		
Total Operating Expenses	2,326	2,325
<i>EBITDA</i>	1,821	1,780
Operating Income	1,546	1,510
<i>Operating Margin</i>	13.42%	12.56%
Other Income (Expense)		
Total Other Income (Expense)	(82)	(30)
Pre-Tax Income	1,465	1,480
<i>Pre-Tax Margins</i>	12.71%	12.31%
Income Tax Expense (Benefit)	553	575
<i>Tax Rate</i>	37.75%	38.85%
Net Income	\$ 912	\$ 905
EPS -- Fully Diluted	\$ 0.05	\$ 0.05
Avg Shares Out-Fully Diluted	16,765	16,830
Year / Year Growth		
Total Revenues	18.61%	23.77%

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

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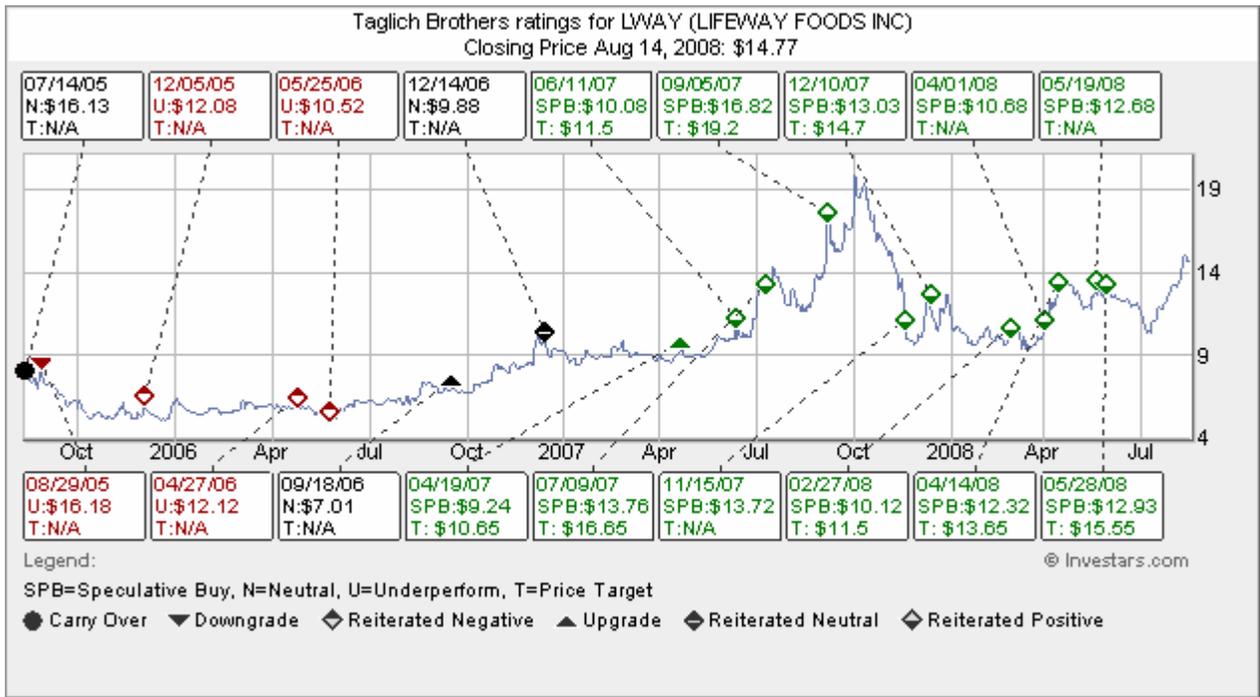
www.taglichbrothers.com

Estimate Analysis: Top line results were shy of our expectation by approximately \$0.500 million. However, bottom line results were in line with our forecast (see table on prior page). The primary reason for the Company's bottom line meeting our expectations was better than anticipated gross margin. Gross margin for the quarter beat our forecast by approximately 172 basis points, primarily due to the continuing decrease in raw milk costs.

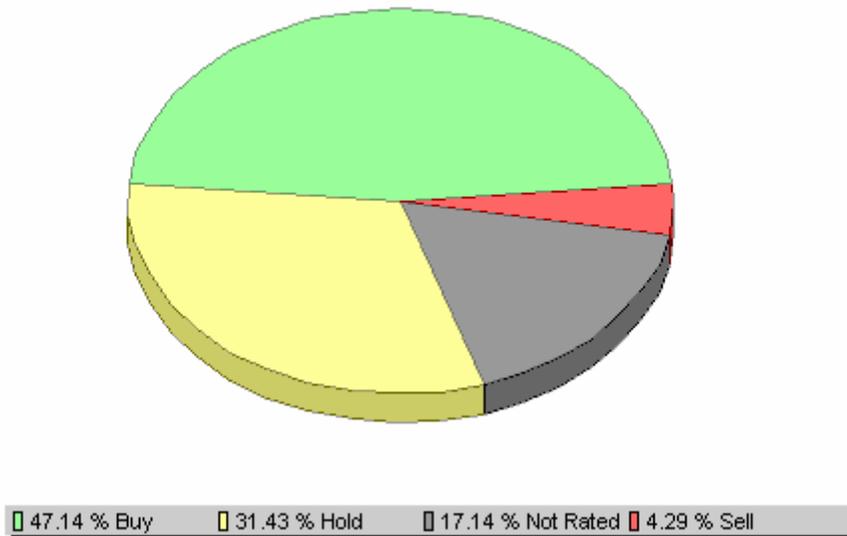
Rating: Currently, we are maintaining our Speculative Buy rating on Lifeway Foods.

Risks: Please review our latest research report (May 28, 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	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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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.