



# 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 17, 2009

**LWAY \$13.20 – (NasdaqGM)**

*Lifeway Foods, Inc., a manufacturer of cultured, probiotic and functional food products in the health food industry, 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 13, 2009, Lifeway Foods announced 2Q'09 results for the three-month period ended June 30, 2009. Below are the company's results for the second quarter of 2009, compared to our estimates (\$ thousands):

	Q2 (06/09)A	Q2 (06/09)E	Q2 (06/08)A
Sales	\$ 14,479	\$ 14,560	\$ 11,523
Cost of goods sold	8,332	9,300	7,651
<b>Gross Profit</b>	6,148	5,260	3,873
Operating Expenses:			
Total Operating Expenses	2,993	3,175	2,326
<b>EBITDA</b>	3,677	2,470	1,821
<b>Operating Income</b>	3,155	2,085	1,546
Other Income (Expense)			
Total Other Income (Expense)	1	(105)	(82)
<b>Pre-Tax Income</b>	3,156	1,980	1,465
Income Tax Expense (Benefit)	624	765	553
<b>Net Income</b>	\$ 2,532	\$ 1,215	\$ 912
<b>EPS -- Fully Diluted</b>	\$ 0.15	\$ 0.07	\$ 0.05
Avg Shares Out-Fully Diluted	16,790	16,850	16,765
Gross Margin	42.5%	36.1%	33.6%
Operating Margin	21.8%	14.3%	13.4%
Pre-Tax Margins	21.8%	13.6%	12.7%
Tax Rate	19.8%	38.6%	37.7%
Year / Year Growth			
Total Revenues	25.7%	26.4%	18.6%

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

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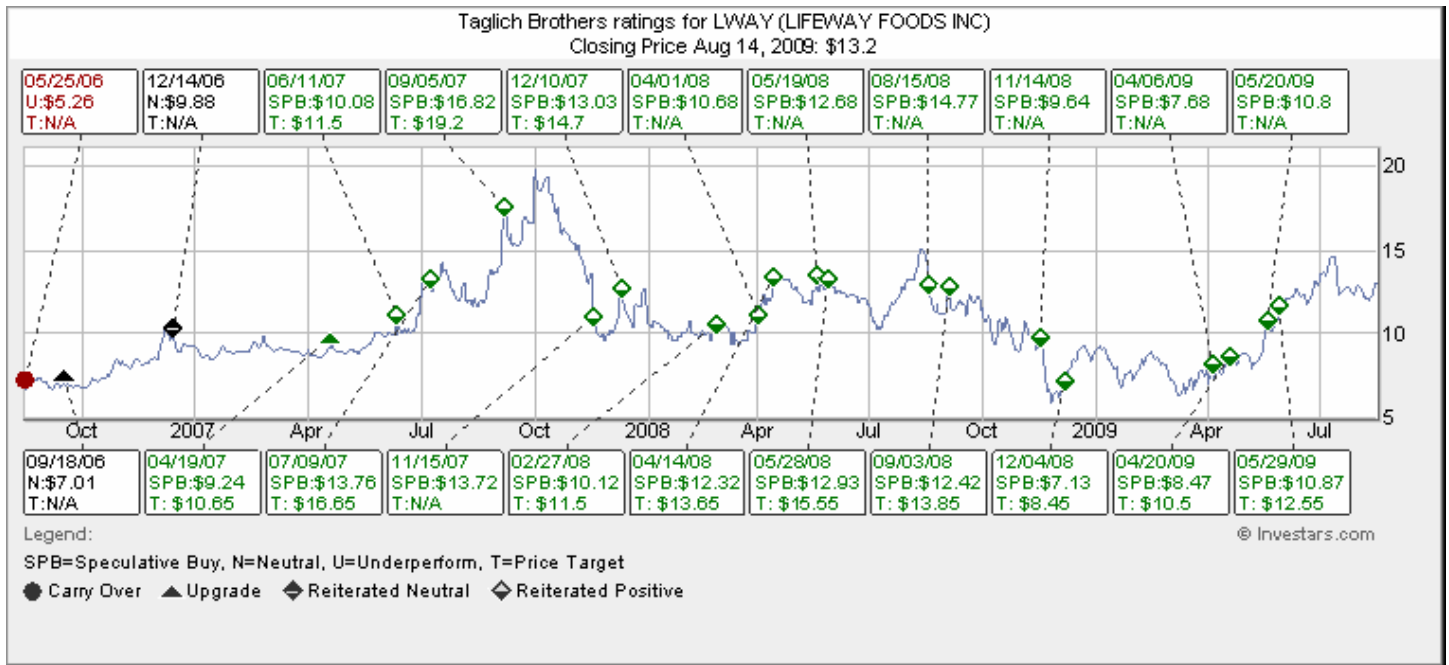
[www.taglichbrothers.com](http://www.taglichbrothers.com)

**Estimate Analysis:** Top line results in line with our forecast. Net income exceeded our forecast by \$1.3 million or \$0.08 per share. Gross margin of 633 basis points above our forecast was the primary reason for the improvement in net income. Gross margin improvement resulted from reductions in input costs such as conventional milk costs, transportation costs, and lower petroleum based production supplies throughout the entire quarter.

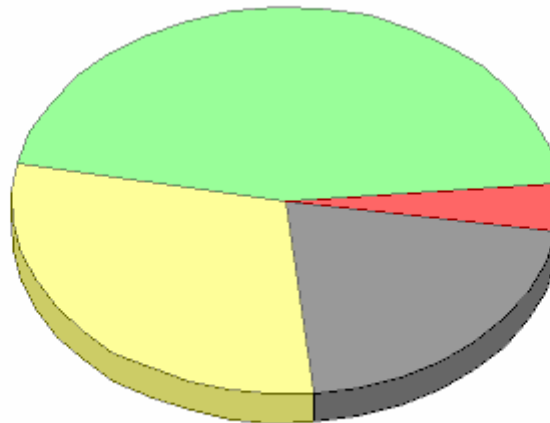
**Rating:** Currently, we are maintaining our Speculative Buy rating on Lifeway Foods.

**Risks:** Please review our latest research report (May 29 2009) for a summary of the principal risks underlying the stock.

# Lifeway Foods, Inc.



## Taglich Brothers Current Ratings Distribution



■ 45.45 % Buy ■ 29.87 % Hold ■ 20.78 % Not Rated ■ 3.9 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	1	3.68%
Hold	1	16.67%
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.**

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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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**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.**