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Research Report Update

Lifeway Foods, Inc.

Rating: Speculative Buy

Howard Halpern

LWAY $5.50- (NasdaqNM)

August 21, 2002

	FYE (12/99)	FYE (12/00)	FYE (12/01)	*FYE (12/02)*	*FYE (12/03)*
Revenues (in millions)	$7.9	$9.2	$10.7	***$12.3***	***$14.2***
Earnings per share (diluted)	$0.17	$0.21	$0.28	***$0.36***	***$0.44***

52week range	$8.00 – $4.95	Fiscal year ends:	December
Shares outstanding	4.27 million	Revenue/shares (TTM)	$2.61
Trading float	1.20 million	Price/Sales (TTM)	2.11X
Insider and institutional ownership	71.8%	Price/Sales (2003)	1.67X
Tangible Book value/shr a/o 6-30-02	$2.56	Price/Earnings (TTM)	16.2X
Price/Book	2.15X	Price/Earnings (2003)	12.5X

Lifeway Foods, Inc., based in Morton Grove, Illinois 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. They currently have approximately 45 employees. Web site address is: www.kefir.com

Key investment considerations:

- ***We reiterate our Speculative Buy recommendation on Lifeway Foods, Inc. (LWAY) and have a fifteen-month price target of $11.52 per share, based on our 2003 earnings estimate and a discounted cash flow analysis. Our previous eighteen-month price target was $13.65 per share. The reduction in our price target is due to a contraction of industry multiples.***

- ***The Company reported record second quarter revenues of $3.0 million, an increase of 9.1% versus $2.75 million in the second quarter of 2001. Net income increased by 51.7% to $0.352 million or $0.08 per diluted share versus $0.232 million or $0.05 per diluted share in the same period last year.***

- ***During the quarter, Julie Smolyansky was appointed President, Chief Executive Officer and Treasurer at a special meeting of the Board of Directors upon the untimely death of Michael Smolyansky, the Company's founder and President. Also, Ms. Smolyansky, whose previous duties were as the Company's Director of Sales and Marketing was named to the Board of Directors.***

- ***We are maintaining our revenue estimates of $12.3 and $14.2 million for 2002 and 2003, respectively. This is approximately 15% annual revenue growth, which should be achieved through the Company's marketing efforts, increased customer acceptance of its organic products, the continued growth of the La Fruta™ product line, and the Company's recent unveiling of new packaging for its non-fat Kefir products.***

- ***We estimate that net income will be $1.55 million or $0.36 per diluted share in 2002 and increase to $1.92 million or $0.44 per diluted share in 2003.***

**** Please view our disclaimer located on page 6***

The Company

Lifeway Foods, Inc. (LWAY) manufactures a cultured dairy beverage called Kefir and also develops Kefir related products at its two manufacturing facilities in Illinois.

1. A 50,000-square foot facility, which is the largest Kefir manufacturing facility in the United States;
2. A smaller 12,000-square foot Kefir manufacturing facility.

LWAY distributes its products in Illinois directly to approximately 1,200 local stores that include major retail chains (i.e., Jewel Food Stores, Dominick's Finer Foods, and Whole Foods Market), via ten company owned trucks. In the United States, the Company distributes its products to over 10,000 stores. Also, the Company's products are distributed internationally to Canada.

Danone Foods, Inc. the U.S. subsidiary of Groupe Danone of Paris, France, has a 20% ownership interest in the Company.

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 because the fermentation process produces a less sour tasting product and because less sugar is required, the product contains fewer calories.

Management Change

On June 11, 2002, the Company announced that Julie Smolyansky was appointed President, Chief Executive Officer, and Treasurer at a special meeting of the Board of Directors upon the untimely death of Michael Smolyansky the Company's founder and President. Ms. Smolyansky joined the Company in September 1997 serving as the Company's Director of Sales and Marketing, while in that position she implemented new marketing, advertising, and public relations campaigns. Also, she was deeply involved in the development of new products and their introductions. She holds a bachelors degree from the University of Illinois.

The Company has not hired any additional management personnel. This includes the position of Director of Sales and Marketing.

Recent Financials

For the period ended June 30, 2002, versus the period ended June 30, 2001:

- Revenues increased to $3.003 million versus $2.750 million;
- EBITDA increased to $0.71 million versus $0.53 million;
- Net income was $0.352 million or $0.08 per diluted share, versus net income of $0.232 million or $0.05 per diluted share.

The revenue increase for the quarter was primarily attributable to the Company's marketing program for its various Kefir-based products, the introduction of its La Fruta™ yogurt-like drink for the Hispanic market during the first quarter of 2002, and expansion of the Company's line of sweet cheese spreads called Sweet Kiss™.

Net income for the quarter was slightly below our estimate of $0.380 million or $0.09 per diluted share. Net income was below our expectations due to higher than anticipated SG&A expenses of $0.73 million versus our estimate of $0.665 million. This was offset to a degree by higher interest and dividend income. The Company reported SG&A expenses as a percentage of revenues of 24.45% versus our estimate of 22.17%.

* 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 suggest fermented dairy products that contain probiotic cultures are healthful.

Balance Sheet as of June 30, 2002

Cash and cash equivalents grew to $1.53 million versus $1.16 million as of March 31, 2002. Short-term marketable securities of stood at $4.5 million with working capital of $8.18 million. The Company has long-term liabilities of $0.84 million. We believe that LWAY will be able to fund its sales growth from internally generated funds in the foreseeable future.

Industry and Competition

It is estimated that Lifeway Foods' target market in the functional and probiotic foods segment of the food industry generates at least $18.5 billion in annual sales. Also, the Company's organic products are targeting a market that generated approximately $5.8 billion of sales in 2000, according to the Nutrition Business Journal's market research. We project that this market could generate in excess of $6.5 billion in annual sales by the end of 2002. It is estimated that organic non-dairy beverages comprise approximately 5% of the total market.

We continue to view the primary factors driving growth in sales of functional, probiotic, and organic foods as:

- The perception that nutrition is an effective tool for disease prevention; and
- An aging population.

The Company faces almost no direct competition in the United States for its drinkable Kefir product, although the Company's Kefir-based products are subject to competition from other yogurt and dairy products.

2002 — Packaging and Products

On July 8, 2002, the Company announced the unveiling of new packaging for its line of non-fat kefir, at the Fancy Food Show in New York, which is expected to be on store shelves during August 2002. The Company expects that the repackaging of its non-fat kefir products should have similar positive results that were experienced when their low-fat kefir was repackaged in late 2000. The Company believes that the new packaging will make it easier to find their product in the dairy case because the new design should catch the consumers' eye.

In early 2002, the Company expanded distribution of its cultured beverage product called La Fruta™. This product line is intended for the Hispanic market across the Country. La Fruta™ is a yogurt-like drink similar to a milkshake or smoothie and is being sold through retail chains and specialty grocery stores in Hispanic neighborhoods in four fruit-based flavors.

Outlook

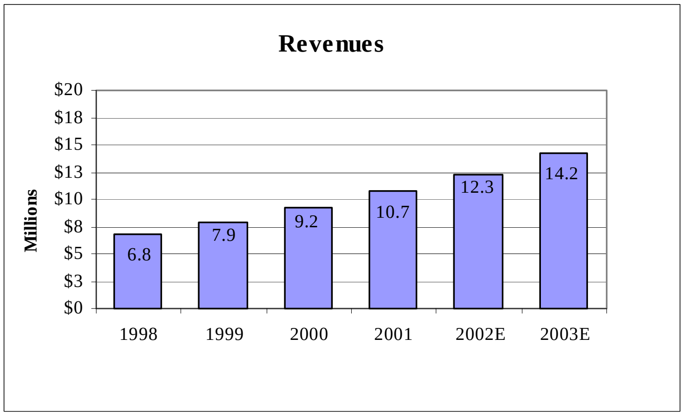
Lifeway continues to grow revenues through the introduction of new product lines (i.e., the La Fruta™ beverage), its marketing program(s), and distribution channels in the United Stated and Canada. The Company's marketing program relies on advertising in local newspapers, primarily in the Chicago area, and in national magazines such as *Self*, Shape, and Men's Fitness, in order to educate consumers about the health benefits of Kefir. Also, the Company is sponsoring and participating in various local sporting events around the country. One such event occurred on July 19, 2002, with the Company being the title sponsor for the Bastille Day 5K Run/Walk & Block Party in Chicago that attracted in excess of 7,000 runners and walkers and had 15,000 block party participants.

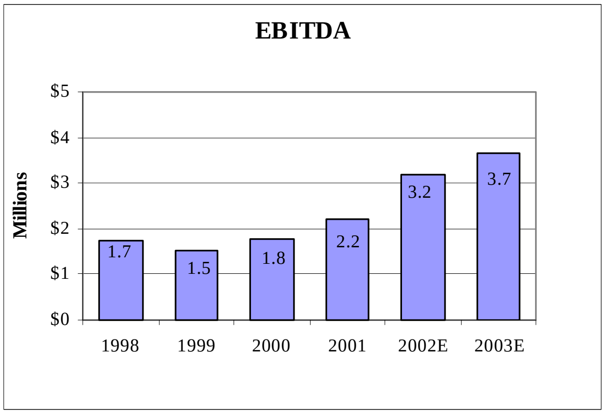
We continue to believe that revenues should grow to $12.3 million in 2002 and $14.2 million in 2003, from $10.68 million in 2001, primarily due to the Company's:

- Organic product line;
- The La Fruta™ product line, which continues to gain acceptance within the Hispanic market;
- Marketing that includes educating consumers about the potential beneficial uses of Kefir in the replenishment of 'good' bacteria in a person's intestinal system especially after taking antibiotics or consuming alcohol;

– Efforts to build on its current distribution channel, which may include regional supermarket chains and/or regional super-center type stores, and assisting local distributors with product sales.

The following chart shows the Company's historic revenue and EBITDA trend and our estimates through 2003:





Risks

During the fourth quarter of 2001, Fresh Made, Inc. amended a previously filed lawsuit against Lifeway Foods in regard to abuse of process, restraint of trade, unfair competition, and interference with business relationships, etc. The Company believes this lawsuit is without merit and is in retaliation to Lifeway's efforts to enforce its rights under a settlement agreement, which the two parties entered into in connection with a prior trademark infringement lawsuit filed against Fresh Made. Currently, this lawsuit is still pending.

The Company's products use raw materials, such as milk, sugar and fruit, from unaffiliated suppliers, and is not limited or contractually bound to any one. 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 in price it could negatively margins for a short period of time.

The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competitive, operating, financial market, corporate governance, and governmental on the State and Federal level, and event risks. These risks may cause actual results to differ from expected results.

During the quarter, the Company suffered the loss of its founder and President, Michael Smolyansky as a result of his untimely death. Julie Smolyansky, who was the Director of Sales and Marketing at the time assumed Mr. Smolyansky's duties. Day to day management of the Company's manufacturing operation remain with Valeriy Nikolenko the Company's Secretary and Vice President of Production. Corporate governance may be an issue facing the Company in light of new rules and regulation being issued by government regulatory agencies. This could mean that the Company may be required to hire additional management personnel in order to diversify various operational functions.

An equity-specific concern relates to liquidity. Based on our calculations average daily-volume during the first seven months of 2002 was approximately 2,635 shares, a slight increase from 2,570 for the full year 2001. Investors need to be aware that by nature, a thinly traded equity can have significant price volatility.

Conclusion

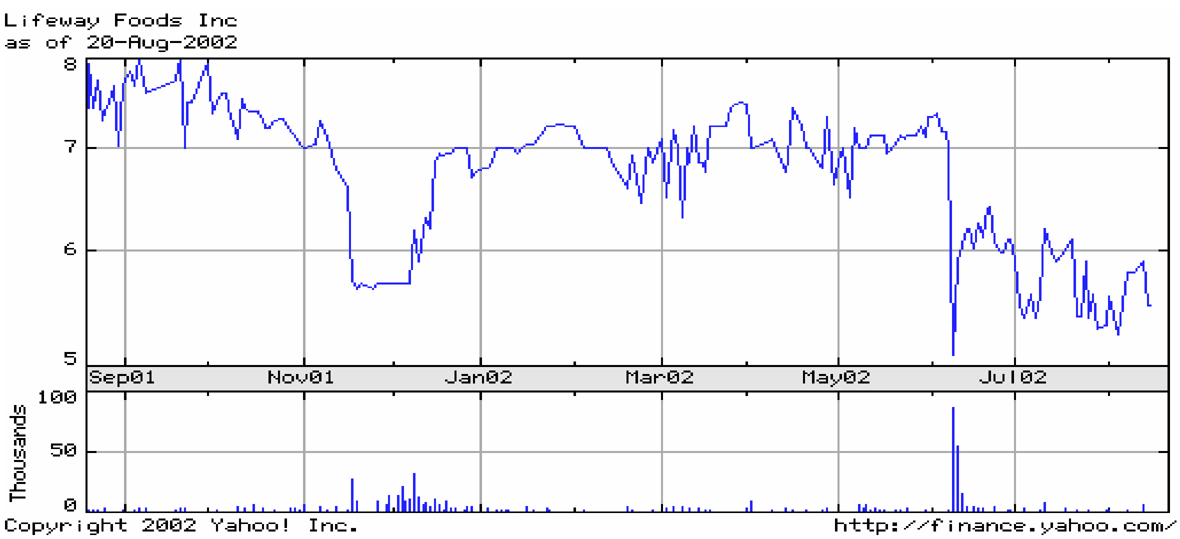
We are maintaining our coverage of Lifeway Foods, Inc., with a Speculative Buy recommendation and have set a fifteen month price target of $11.52 per share. Our previous eighteen-month price target was $13.65 per share. Our price target is based on our earnings per share estimate for 2003 and EBITDA as a proxy for cash flow.

We estimate that the Company will earn $0.36 per diluted share, on revenues of $12.3 million for 2002 and $0.44 per diluted share on revenues of $14.2 million for 2003. Our revenue estimate for 2003 represents a compounded annual growth rate of 15.8% based on the $7.9 million in revenues that the Company reported in 1999. Based on our models, we have slightly lowered our expectations for EBITDA in 2002 to $3.18 million from $3.4 million and in 2003 to $3.67 million from $3.98 million. We expect EBITDA to grow at a compounded annual rate of approximately 10.8% through 2004. We believe as a result of the revenue growth, the Company is able to leverage operating efficiencies at its two owned manufacturing facilities. We estimate that gross margins will improve to 42.9% in 2002 from 39.6% in 2001 and SG&A expenses as a percentage of revenues will decline to 23.5% in 2002 from 26.1% in 2001.

We obtained our price target by averaging the following valuation models:

- A 21.5X P/E (based on the trailing twelve month average for the Food Processing Industry of 23.87X* which we discounted by 10%) applied to our 2003 earnings per share estimate of $0.44. This provides a valuation of $9.46 per share;

- Our discounted cash flow model, using EBITDA as a proxy for cash flow and a 7.18% discount factor using the estimated five year growth rate for the food processing industry. This provides a valuation of $13.57 per share.



* Data from Marketguide a/o 8/15/02

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 Short

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.

Not rated

There is too much uncertainty in the Company's finances or business model for us to currently form an investment conclusion.

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.

Public Companies mentioned in this report:

Groupe Danone (NYSE: DA)

Lifeway Foods, Inc.
Consolidated Balance Sheets
(in thousands)

	Dec. 1999 Full Year	Dec. 2000 Full Year	Dec. 2001 Full Year	Mar. 2002 1st Qtr	Jun. 2002 2nd Qtr
ASSETS					
Current assets:					
Cash and cash equivalents	$ 4,641	$ 1,437	$ 937	$ 1,160	$ 1,534
Marketable securities	1,564	4,850	5,755	5,156	4,547
Accounts receivable, net	966	1,182	1,317	1,469	1,548
Other receivables	57	-	53	58	60
Inventories	844	920	801	859	799
Prepaid expenses and other assets	-	-	34	34	33
Deferred income taxes	52	167	561	719	697
Total current assets	**8,124**	**8,556**	**9,456**	**9,455**	**9,220**
Property, plant and equipment, net	4,528	5,020	5,021	4,865	4,724
Intangible assets, net	5	-	-	-	-
Total assets	**$ 12,658**	**$ 13,575**	**$ 14,477**	**$ 14,320**	**$ 13,944**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current maturities of notes payable	92	706	90	74	75
Margin account	-	-	432	198	52
Accounts payable	480	518	543	603	595
Accrued expenses	192	242	164	166	176
Taxes payable	-	65	145	125	137
Total current liabilities	**764**	**1,531**	**1,374**	**1,167**	**1,036**
Long-term liabilities	1,234	529	1,116	956	836
Deferred income taxes	248	376	436	463	454
Stockholders' equity:					
Common stock, no par value; authorized 10,000,000 shares	6,509	6,509	6,509	6,509	6,509
Stock subscription receivable	(15)	(15)	(15)	(15)	(15)
Retained earnings	3,924	4,851	6,072	6,519	6,871
Accumulated other comprehansive income, net of tax	(7)	(205)	(729)	(959)	(1,424)
Treasury stock, at cost	-	-	(287)	(319)	(322)
Total stockholders' equity	**10,411**	**11,140**	**11,550**	**11,736**	**11,619**
Total liabilities and stockholders' equity	**$ 12,657**	**$ 13,575**	**$ 14,477**	**$ 14,320**	**$ 13,944**
SHARES OUT	4,318	4,318	4,269	4,269	4,268

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

	FY1998	FY1999	FY2000	FY2001	**FY2002E**	**FY2003E**
Sales	$ 6,795	$ 7,908	$ 9,177	$ 10,684	**$ 12,290**	**$ 14,200**
Cost of goods sold	3,697	4,665	5,308	6,449	**7,019**	**8,130**
Gross Profit	3,098	3,243	3,869	4,235	**5,272**	**6,070**
Gross Margins	45.59%	41.01%	42.16%	39.64%	**42.89%**	**42.75%**
Sales, general and administrative	1,759	2,178	2,707	2,785	**2,888**	**3,160**
EBITDA	1,730	1,506	1,772	2,216	**3,177**	**3,670**
Operating Income	1,339	1,065	1,162	1,450	**2,384**	**2,910**
Operating Margin	19.71%	13.47%	12.66%	13.57%	**19.40%**	**20.49%**
Other Income (Expense)						
Interest income	38	110	369	235	**191**	**230**
Interest expense	(106)	(112)	(93)	(93)	**(89)**	**(90)**
Gain on sale of marketable securities	35	7	15	220	**39**	**-**
Total Other Income (Expense)	(33)	5	291	362	**141**	**140**
Pre-Tax Income	1,306	1,070	1,453	1,812	**2,525**	**3,050**
Pre-Tax Margins	19.22%	13.53%	15.84%	16.96%	**20.54%**	**21.48%**
Income Tax Expense (Benefit)	543	387	526	591	**970**	**1,135**
Tax Rate	41.60%	36.21%	36.21%	32.59%	**38.44%**	**37.21%**
Net Income	$ 763	$ 682	$ 927	$ 1,221	**$ 1,554**	**$ 1,915**
EPS -- Fully Diluted	$ 0.20	$ 0.17	$ 0.21	$ 0.28	**$ 0.36**	**$ 0.44**
Avg Shares Out-Fully Diluted	3,781	3,933	4,318	4,318	**4,275**	**4,316**
Percent of Revenue						
Cost of Revenues	54.41%	58.99%	57.84%	60.36%	57.11%	57.25%
Sales, General and Administrative expenses	25.88%	27.54%	29.50%	26.07%	23.50%	22.25%
YEAR / YEAR GROWTH						
Total Revenues	13.99%	16.37%	16.05%	16.42%	15.04%	15.54%
Operating Income	28.80%	-20.49%	9.12%	24.77%	65.87%	22.07%
Pre-Tax Income	10.94%	-18.08%	35.86%	24.67%	39.36%	20.81%
Net Income	8.90%	-10.51%	35.85%	31.75%	27.30%	23.21%

Lifeway Foods, Inc.
Quarterly Income Statement Model
For the Years Ended December 31, 2001
(in thousands)

	Q1(03/01)	Q2 (06/01)	Q3 (09/01)	Q4 (12/01)	**FY2001**
Sales	$ 2,636	$ 2,750	$ 2,662	$ 2,636	**$ 10,684**
Cost of goods sold	1,547	1,645	1,618	1,639	**6,449**
Gross Profit	1,089	1,105	1,045	996	**4,235**
Gross Margins	*41.31%*	*40.18%*	*39.24%*	*37.80%*	**39.64%**
Sales, general and administrative	657	773	693	662	**2,785**
EBITDA	612	528	546	530	**2,216**
Operating Income	432	331	352	335	**1,450**
Operating Margin	*16.39%*	*12.05%*	*13.22%*	*12.70%*	**13.57%**
Other Income (Expense)					
Interest income	72	51	57	55	**235**
Interest expense	(25)	(30)	(21)	(18)	**(93)**
Gain on sale of marketable securities	85	29	58	48	**220**
Total Other Income (Expense)	132	50	95	85	**362**
Pre-Tax Income	564	381	447	420	**1,812**
Pre-Tax Margins	*21.39%*	*13.87%*	*16.79%*	*15.93%*	**16.96%**
Income Tax Expense (Benefit)	235	149	207	-	**591**
Tax Rate	*41.72%*	*39.09%*	*46.33%*	*0.00%*	**32.59%**
Net Income	$ 329	$ 232	$ 240	$ 420	**$ 1,221**
EPS -- Fully Diluted	$ 0.08	$ 0.05	$ 0.06	$ 0.10	**$ 0.28**
Avg Shares Out-Fully Diluted	4,318	4,318	4,318	4,318	**4,318**
Percent of Revenue					
Cost of Revenues	58.69%	59.82%	60.76%	62.20%	60.36%
Sales, General and Administrative expenses	24.93%	28.13%	26.02%	25.10%	26.07%
YEAR / YEAR GROWTH					
Total Revenues	16.00%	20.22%	16.58%	12.97%	16.42%
Operating Income	90.80%	185.42%	-1.04%	-27.87%	24.77%
Pre-Tax Income	82.98%	26.77%	-7.01%	15.38%	24.67%
Net Income	74.05%	26.02%	-13.02%	50.89%	31.75%

Lifeway Foods, Inc.
Quarterly Income Statement Model
For the Years Ended December 31, 2002
(in thousands)

	Q1(03/02)	Q2 (06/02)	Q3 (09/02)E	Q4 (12/02)E	**FY2002E**
Sales	$ 2,888	$ 3,003	$ 3,150	$ 3,250	**$ 12,290**
Cost of goods sold	1,523	1,761	1,825	1,910	**7,019**
Gross Profit	1,365	1,242	1,325	1,340	**5,272**
Gross Margins	*47.25%*	*41.37%*	*42.06%*	*41.23%*	**42.89%**
Operating Expenses:					
Sales, general and administrative	649	734	760	745	**2,888**
Total Operating Expenses	649	734	760	745	**2,888**
EBITDA	920	707	760	790	**3,177**
Operating Income	716	508	565	595	**2,384**
Operating Margin	*24.79%*	*16.92%*	*17.94%*	*18.31%*	**19.40%**
Other Income (Expense)					
Interest income	37	53	50	50	**191**
Interest expense	(20)	(19)	(25)	(25)	**(89)**
Gain on sale of marketable securities	36	3	-	-	**39**
Rental income					
Total Other Income (Expense)	53	37	25	25	**141**
Pre-Tax Income	769	545	590	620	**2,525**
Pre-Tax Margins	*26.64%*	*18.16%*	*18.73%*	*19.08%*	**20.54%**
Income Tax Expense (Benefit)	322	194	230	225	**970**
Tax Rate	*41.82%*	*35.52%*	*38.98%*	*36.29%*	**38.44%**
Net Income	$ 448	$ 352	$ 360	$ 395	**$ 1,554**
EPS -- Fully Diluted	$ 0.10	$ 0.08	$ 0.08	$ 0.09	**$ 0.36**
Avg Shares Out-Fully Diluted	4,270	4,269	4,275	4,285	**4,275**
Percent of Revenue					
Cost of Revenues	52.75%	58.63%	57.94%	58.77%	57.11%
Sales, General and Administrative expenses	22.46%	24.45%	24.13%	22.92%	23.50%
YEAR / YEAR GROWTH					
Total Revenues	9.54%	9.20%	18.32%	23.31%	15.04%
Operating Income	65.75%	53.23%	60.58%	84.82%	65.87%
Pre-Tax Income	36.37%	43.02%	32.03%	47.88%	39.36%
Net Income	36.15%	51.42%	50.09%	-5.79%	27.30%

Lifeway Foods, Inc.
Quarterly Income Statement Model
For the Years Ended December 31, 2003
(in thousands)

	Q1(03/03)E	Q2 (06/03)E	Q3 (09/03)E	Q4 (12/03)E	**FY2003E**
Sales	$ 3,350	$ 3,475	$ 3,675	$ 3,700	**$ 14,200**
Cost of goods sold	1,860	1,995	2,125	2,150	**8,130**
Gross Profit	1,490	1,480	1,550	1,550	**6,070**
Gross Margins	*44.48%*	*42.59%*	*42.18%*	*41.89%*	**42.75%**
Operating Expenses:					
Sales, general and administrative	765	765	810	820	**3,160**
Total Operating Expenses	765	765	810	820	**3,160**
EBITDA	915	905	930	920	**3,670**
Operating Income	725	715	740	730	**2,910**
Operating Margin	*21.64%*	*20.58%*	*20.14%*	*19.73%*	**20.49%**
Other Income (Expense)					
Interest income	55	55	60	60	**230**
Interest expense	(25)	(25)	(20)	(20)	**(90)**
Total Other Income (Expense)	30	30	40	40	**140**
Pre-Tax Income	755	745	780	770	**3,050**
Pre-Tax Margins	*22.54%*	*21.44%*	*21.22%*	*20.81%*	**21.48%**
Income Tax Expense (Benefit)	305	275	285	270	**1,135**
Tax Rate	*40.40%*	*36.91%*	*36.54%*	*35.06%*	**37.21%**
Net Income	$ 450	$ 470	$ 495	$ 500	**$ 1,915**
EPS -- Fully Diluted	$ 0.10	$ 0.11	$ 0.11	$ 0.12	**$ 0.44**
Avg Shares Out-Fully Diluted	4,300	4,310	4,320	4,335	**4,316**
Percent of Revenue					
Cost of Revenues	55.52%	57.41%	57.82%	58.11%	57.25%
Sales, General and Administrative expenses	22.84%	22.01%	22.04%	22.16%	22.25%
YEAR / YEAR GROWTH					
Total Revenues	16.00%	15.73%	16.67%	13.85%	15.54%
Operating Income	1.25%	40.77%	30.97%	22.69%	22.07%
Pre-Tax Income	-1.85%	36.61%	32.20%	24.19%	20.81%
Net Income	0.55%	33.65%	37.50%	26.58%	23.21%

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

	FY1998A	FY1999A	FY2000A	FY2001A	Q2 2002A
Cash Flows from Operating Activities					
Net Income	$ 763	$ 682	$ 927	$ 1,221	$ 799
Depreciation and amortization	391	441	610	777	403
Amortization of discounts on securities	-	(7)	-	-	-
Gain on sale of marketable securities	(35)	(7)	(15)	(250)	(39)
Issuance of common stock in exchange for services rendered	31	-	-	-	-
Decrease in allowance for doubtful accounts	(48)	-	-	-	-
Provision for doubtful accounts	-	-	-	15	-
Deferred income taxes	115	54	150	48	33
	1,217	1,165	1,672	1,812	1,196
Changes In:					
Accounts receivable	19	(118)	(216)	(150)	(232)
Other receivables	(1)	(41)	57	(53)	(7)
Inventories	(237)	8	(76)	119	1
Prepaid expenses and other assets	(4)	12	-	(34)	0
Accounts payable	119	(34)	(38)	26	52
Accrued expenses	(262)	26	50	(4)	13
Taxes payable	-	-	65	80	(8)
Net Changes in Working Capital	(366)	(148)	(158)	(15)	(180)
Net cash Provided by Operations	850	1,017	1,514	1,797	1,016
Cash Flows from Investing Activities					
Purchase of marketable securities	(305)	(1,846)	(8,808)	(9,247)	(266)
Sale of marketable securities	218	646	5,202	7,687	666
Change in margin account	-	-	75	357	(380)
Purchase of property, plant and equipment	(593)	(794)	(1,096)	(713)	(107)
Net cash used in Investing	(680)	(1,994)	(4,627)	(1,916)	(87)
Cash Flows from Financing Activities					
Repayment of notes payable	(92)	(96)	(91)	(94)	(296)
Proceeds from issuance of common stock	-	5,138	-	-	-
Purchase of treasury stock	-	-	-	(287)	(35)
Stock issuance costs	-	(52)	-	-	-
Net cash provided by Financing	(92)	4,990	(91)	(381)	(331)
Net change in Cash	78	4,013	(3,204)	(500)	597
Cash Beginning of Period	551	628	4,641	1,437	936
Cash End of Period	$ 628	$ 4,641	$ 1,437	$ 936	$ 1,534