



TAGLICH BROTHERS

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

November 14, 2008

LWAY \$9.64 – (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 November 14, 2008, Lifeway Foods announced 2008 third quarter results for the three-month period ended September 30, 2008. Below are the Company's results for the third quarter of 2008, compared to Taglich Brothers' estimates for same period:

	<u>Q3 (09/08)A</u>	<u>Q3 (09/08)E</u>
Sales	\$ 11,240	\$ 11,805
Cost of goods sold	<u>7,703</u>	<u>7,685</u>
Gross Profit	3,537	4,120
<i>Gross Margins</i>	31.47%	34.90%
Operating Expenses:		
Total Operating Expenses	<u>2,070</u>	<u>2,385</u>
<i>EBITDA</i>	1,742	2,010
Operating Income	1,467	1,735
<i>Operating Margin</i>	13.05%	14.70%
Other Income (Expense)		
Total Other Income (Expense)	<u>(344)</u>	<u>-</u>
Pre-Tax Income	1,123	1,735
<i>Pre-Tax Margins</i>	9.99%	14.70%
Income Tax Expense (Benefit)	<u>268</u>	<u>660</u>
<i>Tax Rate</i>	23.86%	38.04%
Net Income	<u>\$ 855</u>	<u>\$ 1,075</u>
EPS -- Fully Diluted	<u>\$ 0.05</u>	<u>\$ 0.06</u>
Avg Shares Out-Fully Diluted	<u>16,731</u>	<u>16,785</u>
Year / Year Growth		
Total Revenues	14.49%	20.24%

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

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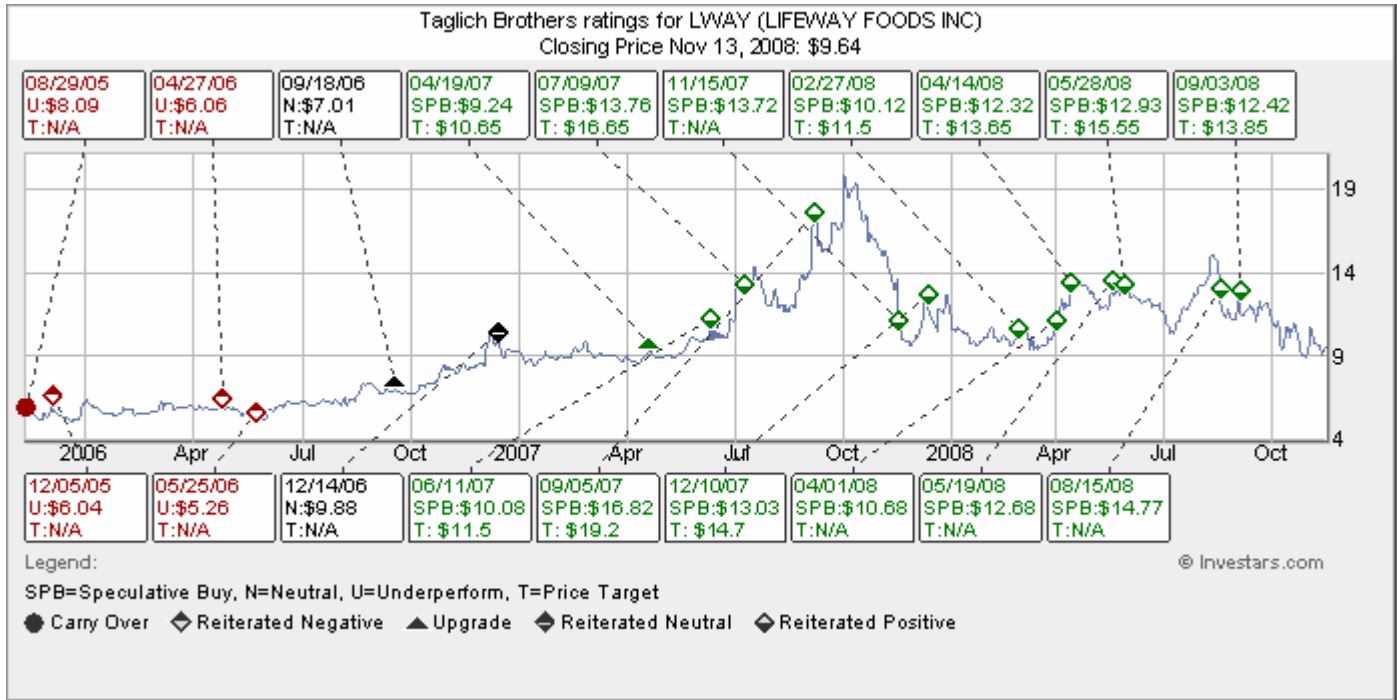
www.taglichbrothers.com

Estimate Analysis: While the Company grew top line by approximately 15% on a year-over-year basis, reported results for the current period fell short of our expectation by approximately \$0.565 million. The primary reasons why bottom line results missed our expectations by approximately \$0.220 million or \$0.01 per diluted share were top line results fell short of our forecast, as well as a 343 basis point shortfall from our gross margin forecast. We believe that gross margins did not meet our forecast due to oil and energy prices remaining relatively high during the first two months of the third quarter. Management stated that it has only just begun to see those costs subside.

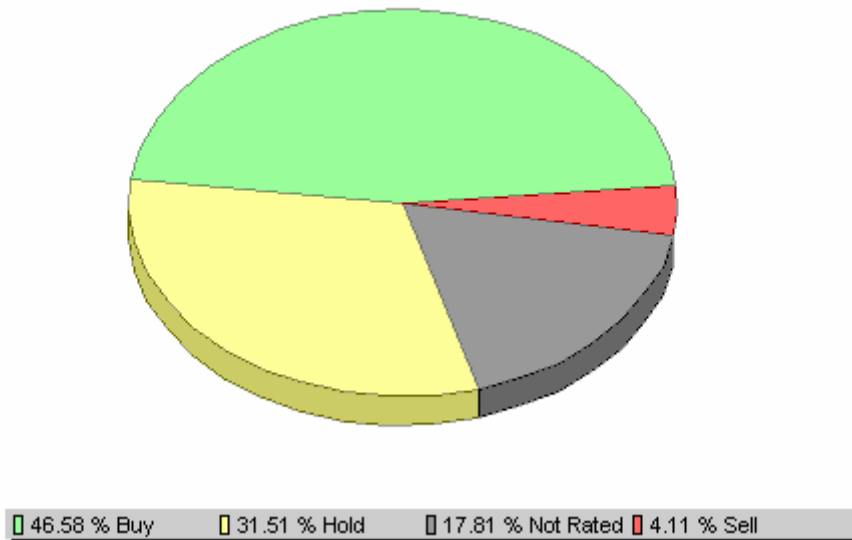
Rating: Currently, we are maintaining our Speculative Buy rating on Lifeway Foods.

Risks: Please review our latest research report (September 3, 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	1	7.14%
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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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.