Taglich Brothers, Inc.
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Research Report - Update

Lifeway Foods, Inc. **Rating: Speculative Buy**

Howard Halpern

LWAY $7.05 - (NasdaqNM) November 25, 2002

	FYE (12/99)	FYE (12/00)	FYE (12/01)	***FYE (12/02) E***	***FYE (12/03) E***
Revenues (in millions)	$7.9	$9.2	$10.7	***$12.1***	***$13.6***
Earnings per share (diluted)	$0.17	$0.21	$0.28	***$0.38***	***$0.48***

52week range	$8.00 – $4.95	Fiscal year ends:	December
Shares outstanding	4.27 million	Revenue/shares (TTM)	$2.71
Trading float	1.20 million	Price/Sales (TTM)	2.60X
Insider and institutional ownership	71.8%	Price/Sales (2003)	2.22X
Tangible Book value/shr a/o 9-30-02	$2.64	Price/Earnings (TTM)	17.6X
Price/Book	2.67X	Price/Earnings (2003)	14.7X

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 set a twelve-month price target of $11.50 per share, based on our 2003 earnings estimate and a discounted cash flow analysis. Our previous fifteen-month price target was $11.52 per share.

The Company reported record third quarter revenues of $3.075 million, an increase of 15.5% versus $2.662 million in the third quarter of 2001. Net income increased by 121% to $0.531 million or $0.12 per diluted share versus $0.240 million or $0.06 per diluted share in the same period last year.

The improved third quarter results were attributable to cost cutting measures implemented by Julie Smolyansky, who was appointed Chief Executive Officer during the second quarter.

We are slightly adjusting our revenue estimates to $12.1 million and $13.6 million versus our prior forecasts of $12.3 million and $14.2 million for 2002 and 2003, respectively.

Our current revenue forecasts, which calls for approximately 13% annual revenue growth, should be achieved through the Company's marketing efforts, increased acceptance of its organic products, growth of the La Fruta™ product line, and the recent unveiling of new packaging for non-fat Kefir products.

We are increasing our net income estimates by $0.09 million and $0.16 million for 2002 and 2003, respectively to $1.64 million or $0.38 per diluted share and $2.08 million or $0.48 per diluted share.

**** Please view our disclaimer located on page 8***

1370 Avenue of the Americas, 31st Floor, New York, N.Y. 10019
(800) 456-1220 • Fax (212) 265-4744
www.taglichbrothers.com

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; and
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. 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 period ended September 30, 2002 versus the period ended September 30, 2001:

- Revenues increased to $3.075 million versus $2.662 million;
- Operating expenses increased to $0.750 million versus $0.693 million;
- EBITDA increased to $0.942 million versus $0.546 million;
- Net income was $0.531 million or $0.12 per diluted share versus net income of $0.240 million or $0.06 per diluted share.

The 15.5% revenue increase for the quarter was primarily attributable to the Company's marketing program for its various Kefir-based products, the growing acceptance of its La Fruta™ yogurt-like drink that was introduced earlier this year to the Hispanic markets, and the expansion of the Company's line of sweet cheese spreads called Sweet Kiss™.

Gross margins improved during the quarter to 48.4% versus 39.2% in the same period last year. The improvement in gross margins resulted from the Company successfully renegotiating lower priced vendor contracts for raw materials and production supplies. Operating expenses, as a percentage of revenues, decreased in the quarter to 24.4% versus 26.0% in the same period last year. The decrease in operating expenses on a percentage basis was due to increased sales and cost saving measures implemented during the quarter to streamline both production, and sales and marketing efforts.

The Company reported net income of $0.531 million or $0.12 per diluted share, which exceeded our estimate of $0.36 million or $0.08 per diluted share. The improved third quarter results were attributable to cost cutting measures implemented by Julie Smolyansky, who was appointed Chief Executive Officer during the second quarter due to the untimely death of the Company's founder Michael Smolyansky.

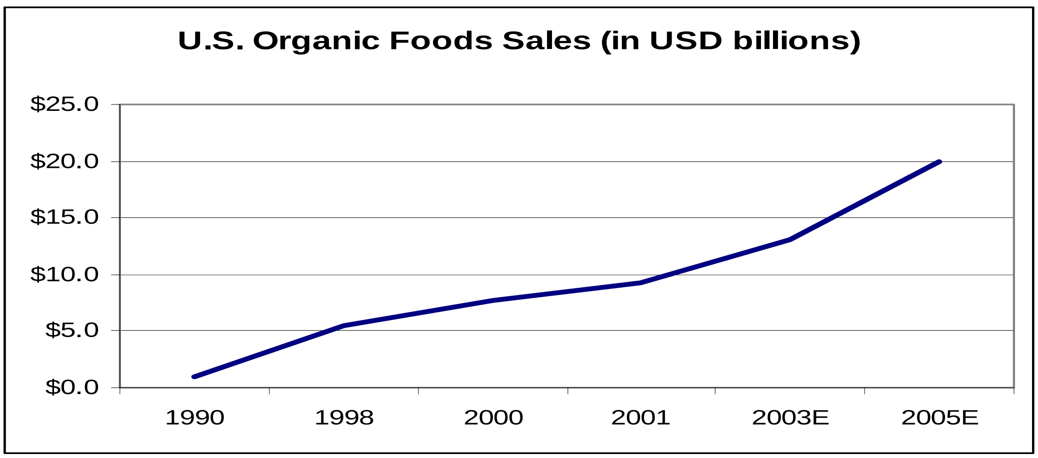
Balance Sheet as of September 30, 2002

The Company had cash and cash equivalents of $1.39 million and short-term marketable securities of $4.9 million. This compares to cash and cash equivalents of $1.53 million and short-term marketable securities of $4.5 million as of June 30, 2002. Working capital increased to $8.26 million versus $8.18 million as of June 30, 2002. The Company's long-term liabilities stand at $0.47 million. We believe that LWAY will be able to fund its sales growth from internally generated funds.

Subsequent to the end of the quarter, the Company announced on October 10, 2002 that the Board of Directors authorized a stock repurchase program of up to 50,000 shares. The Company may repurchase shares periodically in the open market or through privately negotiated transactions within a period of one year from the date of the first purchase.

Industry and Competition

It is estimated that Lifeway Foods' target market in the functional and probiotic foods segment of the Food Industry generates approximately $20 billion in annual sales. Also, the Company's organic products are targeting a market that generated approximately $9.3 billion of sales in 2001, according to Rabobank International's Food & Agribusiness Research Industry Note of May 2002. The chart below indicates the growth potential for this segment:



Source: Organic Trade Association; Natural Marketing Institute; Rabobank International, Food& Agribusiness Research

It is estimated that organic beverages comprise approximately 5% of the total U.S. Organic Food 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;
- An aging population; and
- The expanding participation of conventional manufacturers and retailers in niche food segments.

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

During the third quarter of 2002, the Company's new packaging for its line of non-fat kefir positively impacted sales. The positive impact of the new packaging is attributable to making it easier to find the Company's products in the dairy case since the new design should catch the consumers' eye.

The Company continues to expanded distribution of its cultured beverage product called La Fruta™. This product line is intended for the Hispanic markets 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

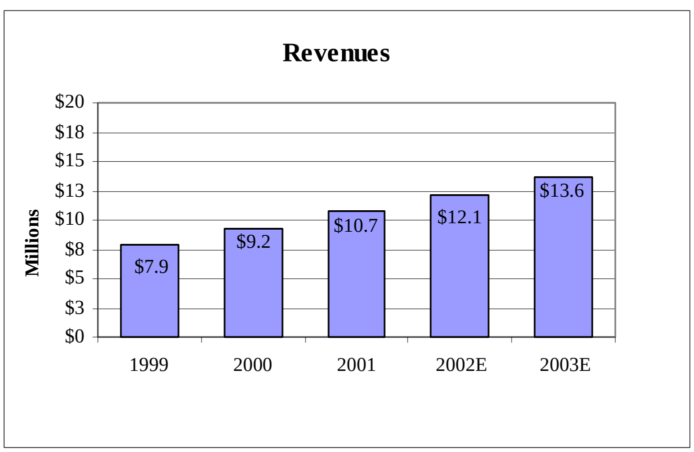
Our current revenue forecasts, which calls for approximately 13% annual revenue growth, should be achieved through the Company's marketing efforts, consumers increased acceptance of its organic products, growth of the La Fruta™ product line, and the recent unveiling of new packaging for non-fat Kefir products.

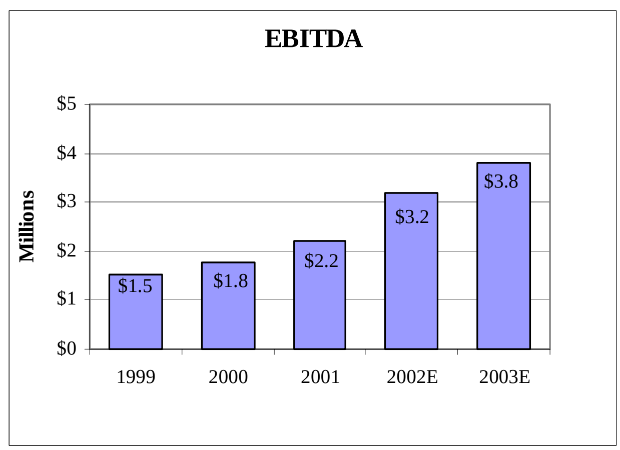
The Company's marketing program relies on advertising in local newspapers, primarily in the Chicago area, and in national magazines, such as Self, Shape, and Men's Fitness. The advertisements attempt to educate consumers about the health benefits of Kefir. Also, the Company sponsors and participates in various local sporting events around the country (i.e., Bastille Day 5K Run/Walk & Block Party in Chicago).

We believe that revenues should grow to $12.07 million in 2002 and $13.64 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 to assist local distributors with product sales.

The following chart shows our revenue and EBITDA projections:





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. 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. On August 8, 2002, an order was entered dismissing 19 of 20 counts made against the Company by Fresh Made, Inc. Lifeway intends to vigorously defend the remaining count.

The Company's products use raw materials, such as milk, sugar and fruit, from unaffiliated suppliers. Lifeway is not limited or contractually bound to anyone. 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 impact margins for a short period of time.

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 will eventually be required to hire additional management personnel in order to diversify various operational functions. To date, the Company has not hired any additional management personnel, which includes the position of Director of Sales and Marketing.

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.

Liquidity has the potential to be a concern. The Company has approximately 1.2 million shares available to trade, with insiders and institutions holding approximately 3 million shares or 71.8% of total shares outstanding. Based on our calculations average daily-volume during the first ten months of 2002 has decreased to approximately 2,042 shares from 2,570 for the full year 2001. Investors need to be aware that liquidity risks in the microcap market are characterized by low trading volume, high volatility of the stock price, and a wide bid-ask spread.

Conclusion

We are maintaining our coverage of Lifeway Foods, Inc., with a Speculative Buy recommendation and have set a twelve-month price target of $11.50 per share. Our previous fifteen-month price target was $11.52 per share. Our price target is based on our earnings per share estimate for 2003 and EBITDA as a proxy for cash flow.

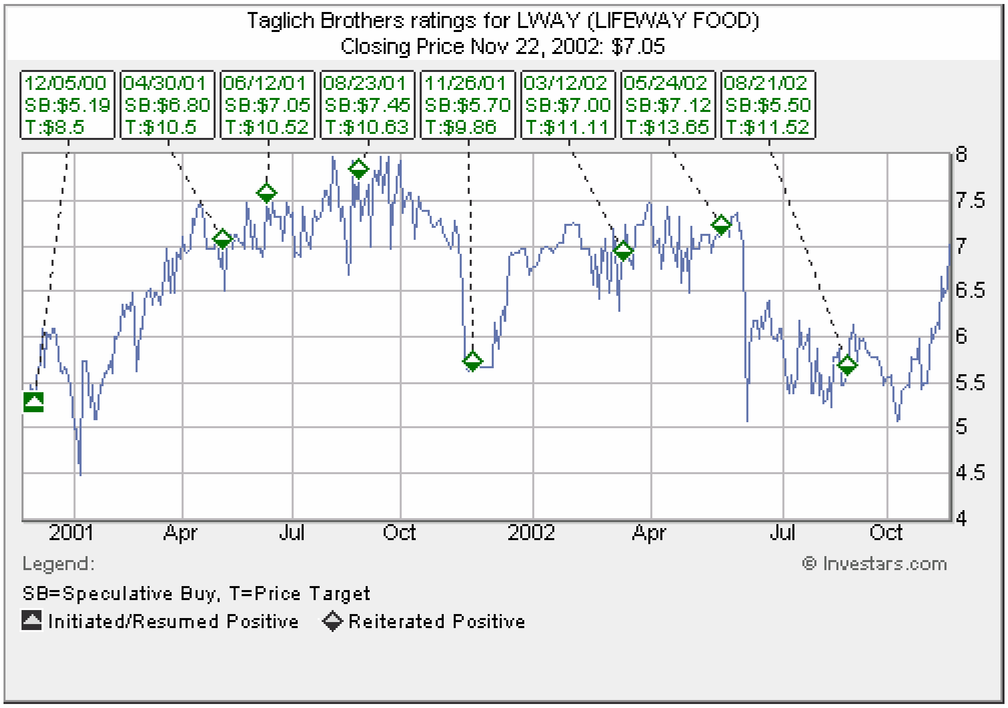
We estimate that the Company will earn $0.38 per diluted share, on revenues of $12.1 million for 2002 and $0.48 per diluted share on revenues of $13.64 million for 2003. Our revenue estimate for 2003 represents a compounded annual growth rate of 14.6% based on the $7.9 million in revenues that the Company reported in 1999. Based on our models, we have slightly increased our expectations for EBITDA in 2002 to $3.19 million from $3.18 million and in 2003 to $3.80 million from $3.67 million. We expect EBITDA to grow at a compounded annual rate of approximately 16.3% 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 45.5% in 2003 from our estimate of 44.5% in 2002 and SG&A expenses as a percentage of revenues will decline to 23.4% in 2003 from 24.7% in 2002.

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

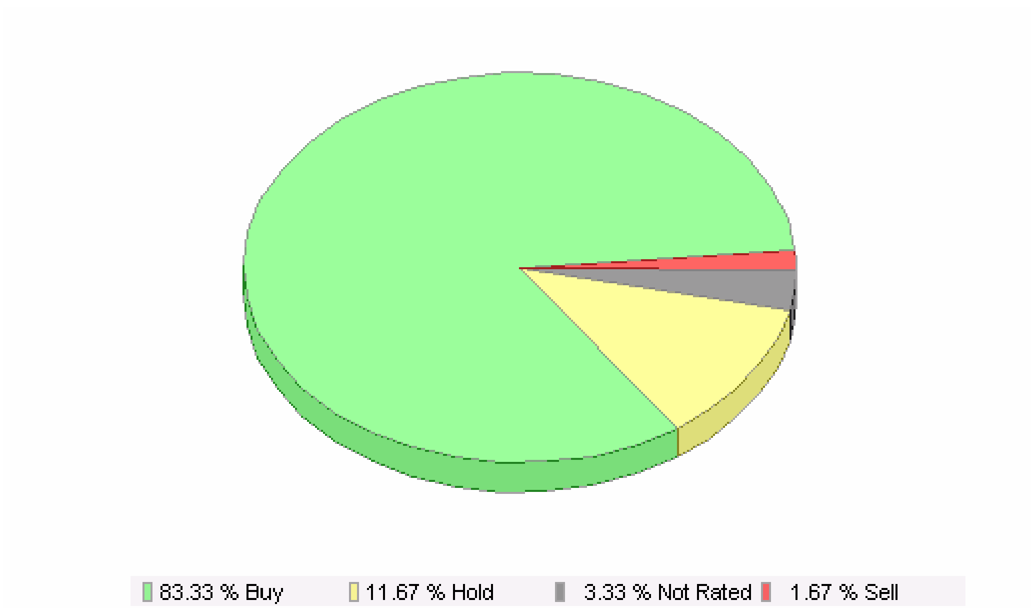
- An 18.3X P/E (based on the trailing twelve month average for the Food Processing Industry of 22.9X* which we discounted by 20%) applied to our 2003 earnings per share estimate of $0.48. This provides a valuation of $8.78 per share;

- Our discounted cash flow model, using EBITDA as a proxy for cash flow, a 7.0% discount factor using the estimated five year growth rate for the food processing industry and 20% discount for microcap risk. This provides a valuation of $14.22 per share.

* Data from Marketguide a/o 11/25/02



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 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	Sept. 2002 3rd Qtr
ASSETS						
Current assets:						
Cash and cash equivalents	$ 4,641	$ 1,437	$ 937	$ 1,160	$ 1,534	$ 1,386
Marketable securities	1,564	4,850	5,755	5,156	4,547	4,902
Accounts receivable, net	966	1,182	1,317	1,469	1,548	1,558
Other receivables	57	-	53	58	60	70
Inventories	844	920	801	859	799	795
Prepaid expenses and other assets	-	-	34	34	33	27
Deferred income taxes	52	167	561	719	697	697
Total current assets	**8,124**	**8,556**	**9,456**	**9,455**	**9,220**	**9,435**
Property, plant and equipment, net	4,528	5,020	5,021	4,865	4,724	4,587
Intangible assets, net	5	-	-	-	-	-
Total assets	**$ 12,658**	**$ 13,575**	**$ 14,477**	**$ 14,320**	**$ 13,944**	**$ 14,022**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Current maturities of notes payable	92	706	90	74	75	63
Margin account	-	-	432	198	52	-
Accounts payable	480	518	543	603	595	630
Accrued expenses	192	242	164	166	176	206
Taxes payable	-	65	145	125	137	279
Total current liabilities	**764**	**1,531**	**1,374**	**1,167**	**1,036**	**1,178**
Long-term liabilities	1,234	529	1,116	956	836	468
Deferred income taxes	248	376	436	463	454	421
Stockholders' equity:						
Common stock, no par value; authorized 10,000,000 shares	6,509	6,509	6,509	6,509	6,509	6,509
Stock subscription receivable	(15)	(15)	(15)	(15)	(15)	(15)
Retained earnings	3,924	4,851	6,072	6,519	6,871	7,402
Accumulated other comprehansive income, net of tax	(7)	(205)	(729)	(959)	(1,424)	(1,619)
Treasury stock, at cost	-	-	(287)	(319)	(322)	(322)
Total stockholders' equity	**10,411**	**11,140**	**11,550**	**11,736**	**11,619**	**11,955**
Total liabilities and stockholders' equity	**$ 12,657**	**$ 13,575**	**$ 14,477**	**$ 14,320**	**$ 13,944**	**$ 14,022**
SHARES OUT	4,318	4,318	4,269	4,269	4,268	4,268

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

	FY1999	FY2000	FY2001	**FY2002E**	**FY2003E**
Revenue	$ 7,908	$ 9,177	$ 10,684	**$ 12,065**	**$ 13,640**
Cost of goods sold	4,665	5,308	6,449	**6,695**	**7,430**
Gross Profit	3,243	3,869	4,235	**5,370**	**6,210**
Gross Margins	41.01%	42.16%	39.64%	**44.51%**	**45.53%**
Sales, general and administrative	2,178	2,707	2,785	**2,983**	**3,200**
EBITDA	1,506	1,772	2,216	**3,194**	**3,800**
Operating Income	1,065	1,162	1,450	**2,387**	**3,010**
Operating Margin	13.47%	12.66%	13.57%	**19.79%**	**22.07%**
Other Income (Expense)					
Interest income	110	369	235	**218**	**260**
Interest expense	(112)	(93)	(93)	**(79)**	**(80)**
Gain on sale of marketable securities	7	15	220	**36**	**-**
Total Other Income (Expense)	5	291	362	**176**	**180**
Pre-Tax Income	1,070	1,453	1,812	**2,563**	**3,190**
Pre-Tax Margins	13.53%	15.84%	16.96%	**21.24%**	**23.39%**
Income Tax Expense (Benefit)	387	526	591	**922**	**1,115**
Tax Rate	36.21%	36.21%	32.59%	**35.99%**	**34.95%**
Net Income	$ 682	$ 927	$ 1,221	**$ 1,641**	**$ 2,075**
EPS -- Fully Diluted	$ 0.17	$ 0.21	$ 0.28	**$ 0.38**	**$ 0.48**
Avg Shares Out-Fully Diluted	3,933	4,318	4,318	**4,269**	**4,300**
Percent of Revenue					
Cost of Revenues	58.99%	57.84%	60.36%	55.49%	54.47%
Sales, General and Administrative expenses	27.54%	29.50%	26.07%	24.72%	23.46%
YEAR / YEAR GROWTH					
Total Revenues	16.37%	16.05%	16.42%	12.93%	13.05%
Operating Income	-20.49%	9.12%	24.77%	66.11%	26.08%
Pre-Tax Income	-18.08%	35.86%	24.67%	41.49%	24.46%
Net Income	-10.51%	35.85%	31.75%	34.37%	26.48%

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**
Revenue	$ 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)	Q4 (12/02)E	**FY2002E**
Revenue	$ 2,888	$ 3,003	$ 3,075	$ 3,100	**$ 12,065**
Cost of goods sold	1,523	1,761	1,586	1,825	**6,695**
Gross Profit	1,365	1,242	1,488	1,275	**5,370**
Gross Margins	*47.25%*	*41.37%*	*48.41%*	*41.13%*	**44.51%**
Operating Expenses:					
Sales, general and administrative	649	734	750	850	**2,983**
Total Operating Expenses	649	734	750	850	**2,983**
EBITDA	920	707	942	625	**3,194**
Operating Income	716	508	739	425	**2,387**
Operating Margin	*24.79%*	*16.92%*	*24.02%*	*13.71%*	**19.79%**
Other Income (Expense)					
Interest income	37	53	67	60	**218**
Interest expense	(20)	(19)	(19)	(20)	**(79)**
Gain on sale of marketable securities	36	3	(3)	-	**36**
Rental income					
Total Other Income (Expense)	53	37	45	40	**176**
Pre-Tax Income	769	545	783	465	**2,563**
Pre-Tax Margins	*26.64%*	*18.16%*	*25.48%*	*15.00%*	**21.24%**
Income Tax Expense (Benefit)	322	194	252	155	**922**
Tax Rate	*41.82%*	*35.52%*	*32.18%*	*33.33%*	**35.99%**
Net Income	$ 448	$ 352	$ 531	$ 310	**$ 1,641**
EPS -- Fully Diluted	$ 0.10	$ 0.08	$ 0.12	$ 0.07	**$ 0.38**
Avg Shares Out-Fully Diluted	4,270	4,269	4,269	4,270	**4,269**
Percent of Revenue					
Cost of Revenues	52.75%	58.63%	51.59%	58.87%	55.49%
Sales, General and Administrative expenses	22.46%	24.45%	24.39%	27.42%	24.72%
YEAR / YEAR GROWTH					
Total Revenues	9.54%	9.20%	15.51%	17.62%	12.93%
Operating Income	65.75%	53.23%	109.89%	32.01%	66.11%
Pre-Tax Income	36.37%	43.02%	75.31%	10.91%	41.49%
Net Income	36.15%	51.42%	121.54%	-26.06%	34.37%

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**
Revenue	$ 3,175	$ 3,325	$ 3,565	$ 3,575	**$ 13,640**
Cost of goods sold	1,735	1,840	1,915	1,940	**7,430**
Gross Profit	1,440	1,485	1,650	1,635	**6,210**
Gross Margins	*45.35%*	*44.66%*	*46.28%*	*45.73%*	**45.53%**
Operating Expenses:					
Sales, general and administrative	765	785	815	825	**3,190**
Total Operating Expenses	765	785	815	825	**3,190**
EBITDA	870	895	1,030	1,005	**3,800**
Operating Income	675	700	835	810	**3,020**
Operating Margin	*21.26%*	*21.05%*	*23.42%*	*22.66%*	**22.14%**
Other Income (Expense)					
Interest income	65	65	65	65	**260**
Interest expense	(20)	(20)	(20)	(20)	**(80)**
Total Other Income (Expense)	45	45	45	45	**180**
Pre-Tax Income	720	745	880	855	**3,200**
Pre-Tax Margins	*22.68%*	*22.41%*	*24.68%*	*23.92%*	**23.46%**
Income Tax Expense (Benefit)	270	275	305	270	**1,120**
Tax Rate	*37.50%*	*36.91%*	*34.66%*	*31.58%*	**35.00%**
Net Income	$ 450	$ 470	$ 575	$ 585	**$ 2,080**
EPS -- Fully Diluted	$ 0.11	$ 0.11	$ 0.13	$ 0.13	**$ 0.48**
Avg Shares Out-Fully Diluted	4,275	4,285	4,295	4,345	**4,300**
Percent of Revenue					
Cost of Revenues	54.65%	55.34%	53.72%	54.27%	54.47%
Sales, General and Administrative expenses	24.09%	23.61%	22.86%	23.08%	23.39%
YEAR / YEAR GROWTH					
Total Revenues	9.94%	10.74%	15.94%	15.32%	13.05%
Operating Income	-5.73%	37.82%	13.07%	90.59%	26.49%
Pre-Tax Income	-6.40%	36.61%	12.33%	83.87%	24.85%
Net Income	0.55%	33.65%	8.21%	88.71%	26.78%

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

	FY1998A	FY1999A	FY2000A	FY2001A	Q3 2002A
Cash Flows from Operating Activities					
Net Income	$ 763	$ 682	$ 927	$ 1,221	$ 1,331
Depreciation and amortization	391	441	610	777	607
Amortization of discounts on securities	-	(7)	-	-	-
Gain on sale of marketable securities	(35)	(7)	(15)	(250)	(36)
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	1
	1,217	1,165	1,672	1,812	1,902
Changes In:					
Accounts receivable	19	(118)	(216)	(150)	(242)
Other receivables	(1)	(41)	57	(53)	(17)
Inventories	(237)	8	(76)	119	6
Prepaid expenses and other assets	(4)	12	-	(34)	7
Accounts payable	119	(34)	(38)	26	86
Accrued expenses	(262)	26	50	(4)	42
Taxes payable	-	-	65	80	134
Net Changes in Working Capital	(366)	(148)	(158)	(15)	16
Net cash Provided by Operations	850	1,017	1,514	1,797	1,918
Cash Flows from Investing Activities					
Purchase of marketable securities	(305)	(1,846)	(8,808)	(9,247)	(5,493)
Sale of marketable securities	218	646	5,202	7,687	5,339
Change in margin account	-	-	75	357	(432)
Purchase of property, plant and equipment	(593)	(794)	(1,096)	(713)	(173)
Net cash used in Investing	(680)	(1,994)	(4,627)	(1,916)	(758)
Cash Flows from Financing Activities					
Repayment of notes payable	(92)	(96)	(91)	(94)	(676)
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)	(711)
Net change in Cash	78	4,013	(3,204)	(500)	449
Cash Beginning of Period	551	628	4,641	1,437	936
Cash End of Period	$ 628	$ 4,641	$ 1,437	$ 936	$ 1,385