



For Immediate Release:
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GALAXY NUTRITIONAL FOODS REPORTS 3rd QUARTER 2003 EARNINGS

Reports 3rd Consecutive Quarter of Operating Profits and Positive EBITDA

**Company Announces Positive 4th Quarter, FY 2003 & FY 2004 Guidance with
New Leadership and a Strong Commitment to its Strategic Brand Platforms**

RESULTS FOR THE 3RD QUARTER ENDED DECEMBER 31, 2002

ORLANDO, Florida (February 7, 2002) - Galaxy Nutritional Foods (**AMEX: GXY**), a leading producer of nutritious plant-based dairy alternatives for the retail and foodservice markets, today announced results for its third quarter of fiscal 2003, ended December 31, 2002. The company reported a net loss available to common shareholders of (\$744,437), or (\$0.06) per fully diluted share compared to a net loss available to common shareholders of (\$181,653), or (\$0.02) per fully diluted share for its third quarter of fiscal 2002, ended December 31, 2001.

The company reported an operating income of \$115,198 for its third quarter of fiscal 2003, its third consecutive quarter of operating income. Excluding a \$190,720 non-cash compensation expense relating to the FASB required variable accounting treatment of stock options and warrants, the operating income for the fiscal 2003 quarter would have been \$305,918 compared to an operating loss (excluding \$1,559,024 non-cash compensation income) of (\$437,987) for the fiscal 2002 quarter. **EBITDA** for the quarter was \$819,559, or 8.3%. **EBITDA** earnings are before depreciation charges, interest expense, non-cash compensation expense, and non-cash preferred stock dividends. The company has reported positive **EBITDA** results for its last three quarters which are consistently higher than prior years and expects this trend to continue through fiscal 2004. In line with previous communications, gross margin continued to be strong, with the company posting a solid 30.8% gross profit on sales for the third quarter of fiscal 2003. Gross margin has averaged approximately 30% for the past three consecutive quarters and is expected to exceed this level in the next four quarters. The annual gross margin for fiscal 2002 was 19%.

Net sales for the third quarter were \$9,829,420 compared to net sales of \$10,325,699 for the comparable quarter one year ago, a decrease of 5%. Sales for the last three-quarters have strategically remained at approximately \$10 million to permit the company to operate profitably while it continues to improve its internal controls and operations, realign the product sales mix, restructure management, and conclude its financial restructuring.

RESULTS FOR THE NINE MONTHS ENDED DECEMBER 31, 2002

For the nine months ended December 31, 2002, the company reported a net income available to common shareholders of \$792,621, or \$0.06 per fully diluted share compared to a net loss available to common shareholders of (\$8,642,238), or (\$0.84) per fully diluted share for its nine months ended December 31, 2001.

Average **EBITDA** for the nine months is 8.6% versus a negative average EBITDA of (3.5%) for the comparable period one year ago. Average gross margin for the nine months ended December 31, 2002 was 29.7% versus a nine-month average gross margin of 23.8% one-year ago. Net sales for the nine months ended December 31, 2002 were \$29,993,813 compared with net sales of \$33,500,132 for the nine months ended December 31, 2001.

MANAGEMENT COMMENTS

Christopher J. New, the Company's CEO, stated, "This has been a challenging and exciting nine months of transformation for our business. We are very proud of our accomplishments during these past three quarters having made many vital decisions necessary to course correct and position Galaxy to meet the rapidly growing demand for its products, especially in the super-mass category of the retail market. Once our financial restructuring is completed, we should begin to better realize the vast opportunities that lie ahead of us. "

Mr. New continued, "With input from our new board members and recent managerial changes, we expect to further strengthen operations, sales and marketing to begin steady, manageable profitable sales growth. We are committed to leveraging our strategic brand platforms and category awareness and to 'upsizing' our company primarily through effective micro-marketing methods and promotional partnerships. Our popular brand platforms include Veggie® brand dairy alternatives, the number one selling brand in its category in mass retail, and Soyco Foods®, the number one selling brand in its category in the health food industry. We will focus hard in Q4 of fiscal 2003 and deliver results that demonstrate the improvements made over the past year. In preparation for fiscal 2004, we have fine tuned our strategic operating plan down to the key account level and are looking forward to achieving the strong results this company is capable of," Mr. New concluded.

BUSINESS OUTLOOK & RECENT DEVELOPMENTS

The following statements are forward-looking and actual results may differ materially. Please refer to Galaxy's quarterly and annual reports as filed with the Securities and Exchange Commission (SEC) for a more complete description of risks.

Fourth Quarter Ending March 31, 2003 (FYE 2003)

- ◆ Based on the current business outlook, we expect fourth quarter sales to exceed those achieved in the third quarter of fiscal 2003.
- ◆ We expect to increase operating profits and gross margin as compared to the third quarter as the company continues to improve efficiency in labor, production, sales mix and purchasing.
- ◆ We expect to see additional improvement in our fourth quarter EBITDA over the 8.3% EBITDA we reported in this third quarter.
- ◆ With assistance from key new board members, we expect to conclude our financial restructuring of the company.

Fiscal Year End 2003

- ◆ Based on the current business outlook and the current number of shares outstanding, we expect to report positive earnings per share for the fiscal year ending March 31, 2003 versus a loss per diluted share of (\$1.81) for the fiscal year ended March 21, 2002.

- ◆ We expect to report a positive operating income versus an operating loss of (26.1%) of net sales for the fiscal year ended March 31, 2002.

Fiscal 2004 Guidance

- ◆ We expect to properly finance the company, and set up for long-term profitable growth.
- ◆ We expect to deliver double digit sales growth for fiscal 2004, increase EBITDA and report a significant increase in net income excluding the unknown factor of non-cash compensation expense which is based on stock price fluctuations.

RECENT DEVELOPMENTS

- ◆ The company has recently made numerous changes to its management structure and Board of Directors. Charles L. Jarvie, past President of Dr. Pepper and former CEO of Schenley Industries is now Chairman of the Board. Christopher J. New, formerly the company's COO, is now CEO and a director of the company. Angelo S. Morini, the company's founder and former Chairman and CEO, is now Vice-Chairman and President.
- ◆ Other new board members include Michael H. Jordan, past Chairman and CEO of CBS Corporation and a current director of Dell Computer Corporation; David H. Lipka, past president of DCA Food Industries and current director of Doctors Associates, Inc. (Subway Stores); and Thomas R. Dyckman, a distinguished professor of accounting at Cornell University and former consultant to the Financial Accounting Standards Board (FASB).
- ◆ We expect that the vast experience of our new directors, particularly in the packaged goods area, will be an invaluable asset to the company's strategic growth initiatives and financial activities.
- ◆ In addition to serving as a director, Mr. Dyckman will serve as the chairman of the company's Audit Committee. He is a member of the American Accounting Association and the Accounting Researchers International Association, and completed terms with the Financial Accounting Standards Advisory Committee (1984-1987) and the Financial Accounting Foundation (1989-1993). We believe Mr. Dyckman's impressive qualifications make the company in compliance with the new SEC requirements for audit committee chairpersons' experience as defined in Sarbanes-Oxley.
- ◆ Other strategic managerial appointments include John S. Ruggieri, recently hired in the newly created position of Vice President of Manufacturing. We expect Mr. Ruggieri's fifteen plus years of experience in successful plant operations to make a significant positive impact to the company's production and quality efficiencies.

CONFERENCE CALL INFORMATION

Galaxy will host a teleconference and webcast to discuss its third quarter 2003 results at 10:00 a.m. EST February 10, 2003. To participate in the conference call, please dial **1-800-479-9001** (United States) or **1-719-457-2618** (International). The call will be simultaneously webcast at the following link: <http://www.firstcallevts.com/service/ajwz374266274gf12.html>

Individuals within the U.S. and Canada that cannot access the call are invited to listen to a digitally recorded version by calling the toll free number: **1-888-203-1112**. All other international callers should dial the following number for a digital playback: **1-719-457-0820**. It will be required to reference the pass code # **435165** for all digital playbacks. The playback will be available after 1:00 p.m. EST **Monday, February 10, 2003 through Friday, February 14, 2003 until midnight**. The call will be posted to our website the following week at: <http://www.galaxyfoods.com>.

ABOUT GALAXY NUTRITIONAL FOODS

Galaxy Nutritional Foods® is the leading producer of health-promoting plant-based dairy and dairy-related alternatives for the retail and foodservice markets. An exclusive, new and technologically advanced, safer “hot process” is used to produce these phytonutrient-enriched products, made from nature’s best grains – soy, rice and oats. Veggie products are low fat and fat free (saturated fat and trans-fatty acid free), cholesterol and lactose free, are growth hormone and antibiotic free, and have more calcium, vitamins and other minerals than conventional dairy products. Because they are made with plant proteins, the products are more environmentally friendly and economically efficient than dairy products derived solely from animal proteins. Galaxy’s products are part of the healthy and natural foods category, the fastest growing segment of the retail food market. Galaxy brand names include: Galaxy Nutritional Foods®; Veggie®; Nature's Alternative™; Veggie Lite Bakery™; Veggie Café™; Soyco®; Soymage®; Wholesome Valley®; Lite Bakery®; and formägg®. For more information, please visit Galaxy's website at: www.galaxyfoods.com.

This press release contains “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties, or other factors which may cause actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date hereof. The company undertakes no obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect unanticipated events or developments.

(Financial statement on next page)

GALAXY NUTRITIONAL FOODS, INC.
Statements of Operations
(UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	DECEMBER 31,		DECEMBER 31,	
	2002	2001	2002	2001
NET SALES	\$ 9,829,420	\$ 10,325,699	\$ 29,993,813	\$ 33,500,132
COST OF GOODS SOLD	6,805,863	7,355,250	21,089,597	25,524,884
Gross margin	3,023,557	2,970,449	8,904,216	7,975,248
OPERATING EXPENSES:				
Selling	1,314,235	1,983,565	3,773,908	5,499,661
Delivery	478,331	595,162	1,561,847	1,807,783
Non-cash compensation related to options & warrants	190,720	(1,559,024)	(2,794,630)	2,070,243
General and administrative	864,399	786,634	2,453,148	3,197,175
Research and development	60,674	43,075	174,888	140,931
Total operating expenses	2,908,359	1,849,412	5,169,161	12,715,793
INCOME (LOSS) FROM OPERATIONS	115,198	1,121,037	3,735,055	(4,740,545)
Interest expense	(536,766)	(913,523)	(2,404,868)	(2,310,635)
Other expense	(55,000)	(57,520)	(55,000)	(57,520)
NET INCOME (LOSS)	\$ (476,568)	\$ 149,994	\$ 1,275,187	\$ (7,108,700)
Preferred Stock Dividends	69,017	87,500	209,017	262,500
Preferred Stock Accretion to Redemption Value	198,852	244,147	273,549	1,271,038
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ (744,437)	\$ (181,653)	\$ 792,621	\$ (8,642,238)
BASIC NET INCOME (LOSS) PER COMMON SHARE	\$ (0.06)	\$ (0.02)	\$ 0.07	\$ (0.84)
DILUTED NET INCOME (LOSS) PER COMMON SHARE	\$ (0.06)	\$ (0.02)	\$ 0.06	\$ (0.84)

GALAXY NUTRITIONAL FOODS, INC.

EBITDA Reconciliation

(UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	DECEMBER 31,		DECEMBER 31,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
NET INCOME (LOSS)	\$ (476,568)	\$ 149,994	\$ 1,275,187	\$ (7,108,700)
Plus:				
Interest expense	536,766	913,523	2,404,868	2,310,635
Depreciation expense	568,641	506,370	1,707,586	1,551,983
Non-cash compensation related to options & warrants	190,720	(1,559,024)	(2,794,630)	2,070,243
EBITDA	<u>\$ 819,559</u>	<u>\$ 10,863</u>	<u>\$ 2,593,011</u>	<u>\$ (1,175,839)</u>
As a % of Sales	<u>8.3%</u>	<u>0.0%</u>	<u>8.6%</u>	<u>(3.5%)</u>
