



For Immediate Release:

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**GALAXY NUTRITIONAL FOODS AGREES TO OUTSOURCING
ARRANGEMENT AND SALE OF PLANT ASSETS TO SCHREIBER FOODS
SCHREIBER TO MANUFACTURE AND DISTRIBUTE GALAXY PRODUCTS IN FUTURE
GALAXY TO REPAY OUTSTANDING WACHOVIA BANK DEBT
WITH PROCEEDS FROM ASSET SALE**

ORLANDO, Florida (July 7, 2005) Galaxy Nutritional Foods, Inc. (“Galaxy” or “the Company”) (**AMEX:GXY**), a leading producer and marketer of health-promoting, nutritious plant-based dairy alternatives for the retail and foodservice markets, today announced its entry into two definitive agreements with Schreiber Foods, Inc. (“Schreiber Foods”).

Asset Purchase Agreement

Under the terms of a definitive agreement (the “Asset Purchase Agreement”) signed on June 30, 2005, Galaxy Nutritional Foods, Inc. will sell substantially all of its plant assets to Schreiber Foods, Inc., a \$2 billion-plus (sales) global enterprise and the world’s largest privately held cheese company. The transaction, which will be subject to approval from the Company’s primary lenders and shareholders, is expected to close on or about November 1, 2005.

Supply Agreement

Under the terms of a definitive agreement (the “Supply Agreement”) signed on June 30, 2005, Schreiber Foods has agreed to manufacture and distribute all of the Company’s products for an initial period of five (5) years beginning September 1, 2005. The Supply Agreement is renewable at Galaxy’s option for up to two additional five-year periods. On or before November 1, 2005, Schreiber will purchase Galaxy’s remaining raw materials, ingredients and packaging at the Company’s cost.

“By agreeing to sell our plant assets and contract with Schreiber Foods for the production and distribution of our healthy food products, we expect to retire all of our outstanding debt with Wachovia Bank and realize significant cost savings going forward,” stated Michael E. Broll, Chief Executive Officer of Galaxy Nutritional Foods, Inc. “Our Company will benefit from the production and operational efficiencies of a much larger company that has an outstanding reputation for product quality and distribution capabilities within the dairy products industry. In the future, we will be able to

focus our activities upon new product development and the marketing of our expanding line of dairy alternative products into the retail and foodservice markets. During the first twelve months following the completion of these proposed transactions, Galaxy should realize significant production and distribution cost savings, and such savings should increase as our sales grow in future years.”

The Company also announced that it has entered into a Loan Modification Agreement with Wachovia Bank, N.A. (formerly South Trust Bank) that accelerates the maturity of Galaxy’s loan from June 1, 2009 to July 31, 2006. Under the Modification Agreement, Galaxy will continue to make principal payments of \$110,000 per month until the loan matures or is paid off. It is currently the intention of Galaxy to repay in full its outstanding obligations to Wachovia Bank (estimated to be \$7.5 million as of November 1, 2005) out of cash proceeds from the sale of plant assets to Schreiber Foods.

“We currently expect that the proceeds from the sale of plant assets, after repayment of the loan to Wachovia Bank, will be sufficient to cover any one-time costs associated with the closure of plant facilities and the transition of production and distribution activities to Schreiber Foods,” concluded Broll.

Additional information regarding the Asset Purchase Agreement, the Supply Agreement, and the Loan Modification Agreement is provided in a Form 8-K filed with the Securities and Exchange Commission on July 6, 2005.

Note: During the week of July 11-15, 2005, Galaxy Nutritional Foods, Inc. will release its operating results for the fiscal year ended March 31, 2005. Subsequent to such earnings release, management will host a conference call to discuss FY2005 operating results and the agreements with Schreiber Foods, Inc. that are discussed in this news release. The date and time of such conference call will be announced in a news release to be issued prior to the release of FY2005 operating results.

About Galaxy Nutritional Foods, Inc.

Galaxy Nutritional Foods is the leading producer of great-tasting, health-promoting plant-based dairy and dairy-related alternatives for the retail and foodservice markets. These phytonutrient-enriched products, made from nature's best grains - soy, rice and oats - are low and no fat (no saturated fat and no trans-fatty acids), have no cholesterol, no lactose, are growth hormone and antibiotic free and have more calcium, vitamins and minerals than conventional dairy products. Because they are made with plant proteins, they are more environmentally friendly and economically efficient than dairy products derived solely from animal proteins. Galaxy's products are part of the nutritional or functional foods category, the fastest growing segment of the retail food market. Galaxy brand names include: *Galaxy Nutritional Foods*®, *Veggie*®, *Veggie Nature's Alternative to Milk*®, *Veggie Slices*®, *Soyco*®, *Soymage*®, *Wholesome Valley*®, *formägg*®, and *Lite Bakery*®. For more information, please visit Galaxy's website at www.galaxyfoods.com.

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