



For Immediate Release:

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Contact:

Dawn M. Rob rt, Investor Relations
Galaxy Nutritional Foods, Inc.
(407) 854-0433

GALAXY NUTRITIONAL FOODS REPORTS SECOND QUARTER OPERATING RESULTS

ORLANDO, Florida (November 14, 2005) Galaxy Nutritional Foods, Inc. (**AMEX:GXY**), a leading producer and marketer of nutritious plant-based dairy alternatives for the retail and foodservice markets, today reported its operating results for the second quarter and first half of FY2006.

Galaxy reported a net loss in the quarter ended September 30, 2005, as the Company continued to incur significant expenses that were directly or indirectly related to the pending sale of substantially all of its manufacturing equipment and the transition to a production and distribution outsourcing relationship. Although the Company recorded approximately \$500,000 in disposal activity costs in the most recent quarter, management expects to achieve significant and recurring expense reduction benefits from the production and distribution outsourcing relationship, beginning in the fourth quarter of FY2006.

For the quarter ended September 30, 2005, net sales approximated \$10.4 million, compared with net sales of \$11.9 million in the second quarter of the previous fiscal year. The 12% decline in net sales primarily reflects a reduction in sales due to the transition from indirect sales to Wal-Mart through a private label customer to direct sales to Wal-Mart in April 2005. The Company reported a net loss to common stockholders of (\$1,416,138), or (\$0.07) per share, in the second quarter of FY2006, compared with restated net income to common stockholders of \$410,389, or \$0.03 per share, in the prior-year quarter. Approximately 35% of the net loss in the quarter ended September 30, 2005, reflected costs associated with disposal activities related to the transition of production to an outside manufacturer. Gross profit margin improved to 25.1% of sales in the most recent quarter, versus 21.6% of sales in the prior-year quarter, primarily due to a shift in overall sales mix to higher margin branded sales as well as a reduction in overhead costs. General and administrative expenses more than doubled in the second quarter, when compared with the prior-year quarter (\$921,934 vs. \$444,796), primarily due to additional bad debt costs related to a private label account as well as additional professional fees incurred due to additional filing and correspondence requirements with the SEC.

EBITDA, as adjusted (a non-GAAP measure), approximated (\$139,911) in the second quarter of FY2006, compared with EBITDA, as adjusted, of approximately \$294,002 in the second quarter of FY2005. EBITDA, as adjusted, is comprised of net income before interest, taxes, depreciation and amortization, and is exclusive of employment contract expense, non-cash compensation related to stock options and warrants, derivative expense, impairment of property and equipment as well as cost of disposal activities.

“Our second fiscal quarter net loss continued to reflect non-recurring costs related to the pending sale of our manufacturing assets and the transition costs related to the outsourcing of our production and distribution activities,” stated Michael E. Broll, Chief Executive Officer of Galaxy Nutritional Foods, Inc. “We are pleased with the progress to date, and have already outsourced the majority of our slice, block, and shred products. We expect to outsource the production of our remaining products during the third quarter of FY2006. As we move into the fourth quarter of FY2006, we should begin to realize significant benefits from this production outsourcing and distribution relationship.”

“On a longer term basis, we believe that the benefits in transforming Galaxy from a manufacturing company into a branded marketing company will far outweigh the short-term challenges associated with the transition currently underway. Without the cash-flow burden of carrying inventory and managing manufacturing overhead and production issues, management can focus a substantially greater amount of time and resources on the marketing and sale of our products. Of particular importance is the fact that we will be able to take advantage of our outsourcing partner’s lower production costs relative to the high production costs of our underutilized plant facilities, as well as their purchasing power with raw materials suppliers. We also expect to realize substantial savings in distribution expense after outsourcing in the third quarter of FY2006. Our interest expense and cash requirements for debt service will decline significantly once we pay down outstanding debt by approximately \$8.7 million from the proceeds of the asset sale, which should be completed by the end of our third fiscal quarter. We continue to expect annualized savings from the outsourcing and distribution relationship, as well as, interest expense reductions from the debt reduction, will total approximately \$4 million, and our results should begin to reflect these benefits in the fourth quarter of the current fiscal year.”

“From a strategic perspective, we have begun testing a new consumer advertising and promotional program in certain markets that highlights and communicates the benefits of our healthy food products in terms of no cholesterol, low fat and an excellent source of calcium,” continued Broll. “Our goal is to increase the presence of our products on retail store shelves and to increase household penetration and build market share in specific markets. I am pleased to report that we have experienced a sales lift ranging from 10% to 20%, in those markets that were covered by our increased television marketing activities, and we look forward to becoming even more pro-active in consumer marketing once the outsourcing of our production is fully implemented.”

“The final step, from a procedural perspective, will occur at our Special Shareholders’ Meeting on December 5, 2005, at which time our shareholders will vote upon the proposed sale of substantially all of our manufacturing and production equipment for \$8.7 million in cash. We have already received the necessary approvals from our lenders for this transaction, and if shareholders approve as well, the transfer of our assets and production activities should be fully completed by December 31, 2005.”

For the six months ended September 30, 2005 sales approximated \$20.3 million, compared with net sales of \$23.1 million in the first half of the previous fiscal year. The 12% decline in net sales primarily reflects a reduction in sales due to the transition from indirect sales to Wal-Mart through a private label customer to direct sales to Wal-Mart in April 2005. The Company reported a net loss to common stockholders of (\$10,560,252), or (\$0.55) per share, in the first half of FY2006, compared with a restated net loss to common stockholders of (\$654,258), or (\$0.04) per share, in the corresponding period of the previous fiscal year. Approximately 90% (\$9.5 million) of the net loss in the first half of FY2006, reflected costs associated with asset impairment charges and costs associated with disposal activities, along with \$870,837 in non-cash stock-based compensation expense.

Business Outlook for FY2006

The statements throughout this release are forward-looking in nature, 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.

Given no change in the current business or economic environment, the Company expects:

- Moderate decline in sales in FY2006, primarily due to the reduction in private label products sold through Wal-Mart.
- To report positive operating profits, excluding non-cash stock compensation charges, the cost of disposal activities and impairment or loss on the sale of assets, for FY2006.
- To report positive EBITDA, as adjusted (a non-GAAP measure), excluding non-cash stock compensation charges, the cost of disposal activities and impairment or loss on the sale of assets, for FY2006.

Footnote on non-GAAP Measures Presented Above

Management utilizes certain non-GAAP measures such as EBITDA, as adjusted, because it provides useful information to management and investors in order to accurately review the Company's current on-going operations and business trends related to its financial condition and results of operations. Additionally, these measures are key factors upon which the Company prepares its budgets, forecasts and evaluates loan covenants. In its determination of non-GAAP measures, management excludes the non-cash compensation related to stock-based compensation, the cost of disposal activities, impairment or loss on the sale of assets, as well as the employment contract expense from its analysis of operating income because it believes that these items do not accurately reflect the Company's current on-going operations. With respect to non-cash compensation, derivative expense and fair value of warrants, they are calculated based on fluctuations in the Company's stock price which are outside the Company's control and typically do not reflect the Company's operations. These non-GAAP measures are not in accordance with, or an alternative for, generally accepted accounting principles and may be different from non-GAAP measures reported by other companies.

CONFERENCE CALL AND WEBCAST INFORMATION

The Company will host an investor conference call today at 11:00 a.m. EST; shareholders and other interested parties may participate in the conference call by dialing 800-322-0079 (international/local participants dial 973-409-9258), and referencing the ID passcode 6689896, a few minutes before 11:00 am EST on November 15, 2005. The call will also be broadcast live on the Internet at <http://phx.corporate-ir.net/playerlink.zhtml?c=102653&s=wm&e=1160211>. The call will be archived on the Internet through February 13, 2006 at <http://phx.corporate-ir.net/playerlink.zhtml?c=102653&s=wm&e=1160211>.

About Galaxy Nutritional Foods, Inc.

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®*; *Veggie Nature's Alternative™*; *Veggie Slices®*;

Soyco®; Soymage®; Wholesome Valley®; Lite Bakery®; and Galaxy Nutritional Foods Smart Choice Cheese Products®. 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 PUBLICLY RELEASE ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE HEREOF OR TO REFLECT UNANTICIPATED EVENTS OR DEVELOPMENTS.

(Financial statements follow)

GALAXY NUTRITIONAL FOODS, INC.
Balance Sheets

	SEPTEMBER 30, 2005	MARCH 31, 2005
ASSETS	(Unaudited)	
CURRENT ASSETS:		
Cash	--	\$ 561,782
Trade receivables, net	6,026,258	4,644,364
Inventories	3,283,094	3,811,470
Prepaid expenses and other	371,547	219,592
Total current assets	9,680,899	9,237,208
PROPERTY AND EQUIPMENT, NET	9,330,257	18,246,445
OTHER ASSETS	352,048	286,013
TOTAL	19,363,204	\$ 27,769,666
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Line of credit	\$ 4,275,221	\$ 5,458,479
Book overdraft	130,834	--
Accounts payable	3,198,435	3,057,266
Accrued and other current liabilities	1,801,241	2,130,206
Current portion of accrued employment contracts	903,362	586,523
Current portion of term notes payable	8,670,985	1,320,000
Current portion of obligations under capital leases	114,792	194,042
Total current liabilities	19,094,870	12,746,516
ACCRUED EMPLOYMENT CONTRACTS , less current portion	743,887	993,305
TERM NOTES PAYABLE , less current portion	--	6,921,985
OBLIGATIONS UNDER CAPITAL LEASES , less current portion	68,258	85,337
Total liabilities	19,907,015	20,747,143
COMMITMENTS AND CONTINGENCIES		
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TEMPORARY EQUITY:		
Common stock, subject to registration	2,680,590	2,220,590
STOCKHOLDERS' EQUITY (DEFICIT):		
Common stock	175,511	164,115
Additional paid-in capital	68,360,749	65,838,227
Accumulated deficit	(58,868,000)	(48,307,748)
	9,668,260	17,694,594
Less: Notes receivable arising from the exercise of stock options	(12,772,200)	(12,772,200)
Treasury stock	(120,461)	(120,461)
Total stockholders' equity (deficit)	(3,224,401)	4,801,933
TOTAL	\$ 19,363,204	\$ 27,769,666

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2005	2004	2005	2004
		RESTATED		RESTATED
NET SALES	\$ 10,438,225	\$ 11,900,553	\$ 20,289,378	\$ 23,092,231
COST OF GOODS SOLD	<u>7,817,351</u>	<u>9,319,969</u>	<u>15,400,206</u>	<u>17,571,299</u>
Gross margin	<u>2,620,874</u>	<u>2,580,584</u>	<u>4,889,172</u>	<u>5,520,932</u>
OPERATING EXPENSES:				
Selling	1,557,547	1,572,470	2,493,792	3,032,870
Delivery	726,078	615,257	1,341,549	1,208,583
Employment contract expense – general and administrative	--	444,883	--	444,883
General and administrative, including \$3,319, (\$121,172), \$870,837 and \$41,202 non-cash compensation related to stock based transactions	921,934	444,796	2,523,464	1,240,512
Research and development	89,052	78,932	180,094	151,618
Cost of disposal activities	499,556	--	754,567	--
Impairment of property and equipment	--	--	7,896,554	--
Loss on sale of assets	6,242	--	5,606	--
Total operating expenses	<u>3,800,409</u>	<u>3,156,338</u>	<u>15,195,626</u>	<u>6,078,466</u>
INCOME (LOSS) FROM OPERATIONS	<u>(1,179,535)</u>	<u>(575,754)</u>	<u>(10,306,454)</u>	<u>(557,534)</u>
OTHER INCOME (EXPENSE):				
Interest expense	(293,603)	(264,008)	(650,798)	(523,824)
Derivative income	--	442,606	--	321,487
Gain/(loss) on fair value of warrants	57,000	620,247	397,000	461,351
Total other income (expense)	<u>(236,603)</u>	<u>798,845</u>	<u>(253,798)</u>	<u>259,014</u>
NET INCOME (LOSS)	\$ (1,416,138)	\$ 223,091	\$ (10,560,252)	\$ (298,520)
Less:				
Preferred stock dividends	--	38,006	--	80,398
Preferred stock accretion to redemption value	--	<u>(225,304)</u>	--	<u>275,340</u>
NET INCOME (LOSS) TO COMMON STOCKHOLDERS	<u>\$ (1,416,138)</u>	<u>\$ 410,389</u>	<u>\$ (10,560,252)</u>	<u>\$ (654,258)</u>
BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE	<u>\$ (0.07)</u>	<u>\$ 0.03</u>	<u>\$ (0.55)</u>	<u>\$ (0.04)</u>

GALAXY NUTRITIONAL FOODS, INC.
Statements of Cash Flows
(UNAUDITED)

Six Months Ended September 30,	<u>2005</u>	<u>2004</u> RESTATED
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (10,560,252)	\$ (298,520)
Adjustments to reconcile net loss to net cash from (used in) operating activities:		
Depreciation and amortization	1,075,852	1,092,086
Amortization of debt discount and financing costs	105,718	49,615
Provision for losses on trade receivables	754,451	164,000
Impairment of property and equipment and (gain)/loss on sale of assets	7,902,161	--
Change in fair value of derivative instrument	--	(321,487)
(Gain) Loss on fair value of warrants	(397,000)	(461,351)
Non-cash compensation related to stock-based transactions	870,837	41,202
(Increase) decrease in:		
Trade receivables	(2,136,345)	(2,019,628)
Inventories	528,376	(339,254)
Prepaid expenses and other	(151,955)	(47,802)
Increase (decrease) in:		
Accounts payable	141,169	1,173,240
Accrued and other liabilities	301,456	343,691
NET CASH FROM (USED IN) OPERATING ACTIVITIES	<u>(1,565,532)</u>	<u>(624,208)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(82,525)	(77,207)
Proceeds from sale of equipment	20,700	22,482
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<u>(61,825)</u>	<u>(54,725)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in book overdrafts	130,834	--
Net borrowings (payments) on line of credit	(1,183,258)	1,276,485
Borrowing on term notes payable	1,200,000	--
Repayments on term notes payable	(550,000)	(480,000)
Principal payments on capital lease obligations	(96,329)	(133,731)
Financing costs for long term debt	(179,093)	--
Costs associated with issuance of common stock	--	(22,500)
Proceeds from issuance of common stock under employee stock purchase plan	11,861	12,480
Proceeds from exercise of common stock options	2,560	--
Proceeds from exercise of common stock warrants	1,729,000	--
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>1,065,575</u>	<u>652,734</u>
NET INCREASE (DECREASE) IN CASH	(561,782)	(26,199)
CASH, BEGINNING OF PERIOD	<u>561,782</u>	<u>449,679</u>
CASH, END OF PERIOD	<u>\$ --</u>	<u>\$ 423,480</u>

GALAXY NUTRITIONAL FOODS, INC.
EBITDA, as adjusted, (a non-GAAP measure) Reconciliation
(Unaudited)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2005	2004	2005	2004
NET SALES	\$ 10,438,225	\$ 11,900,553	\$ 20,289,378	\$ 23,092,231
NET INCOME (LOSS)	\$ (1,416,138)	\$ 223,091	\$ (10,560,252)	\$ (298,520)
Plus:				
Non-cash compensation (income) expense	3,319	(121,172)	870,837	41,202
Employment contract expense	--	444,883	--	444,883
Cost of disposal activities	499,556	--	754,567	--
Impairment of property and equipment	--	--	7,896,554	--
Derivative expense	--	(442,606)	--	(321,487)
(Gain)/loss on fair value of warrants	(57,000)	(620,247)	(397,000)	(461,351)
Interest expense	293,603	264,008	650,798	523,824
Depreciation and amortization expense	536,749	546,045	1,075,852	1,092,086
EBITDA, as adjusted	<u>(139,911)</u>	<u>294,002</u>	<u>291,356</u>	<u>1,020,637</u>
As a % of Net Sales	<u>(1.3%)</u>	<u>2.5%</u>	<u>1.4%</u>	<u>4.4%</u>

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