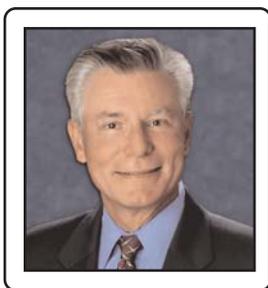



GALAXY NUTRITIONAL FOODS
Quarterly Insight
2nd Quarter Ending: 09/30/2004

2441 Viscount Row, Orlando, FL 32809 • tel: 407-855-5500 • AMEX:GXY • www.galaxyfoods.com



To:



Michael E. Broll, CEO

2nd Quarter Financial Results

For the three months ended September 30, 2004:

- Net sales increased 28% to approximately \$11.9 million, compared with approximately \$9.3 million in the second quarter of FY2004.
- Net loss of (\$839,762) in the second quarter of FY2005, versus a net loss of (\$228,145) in the quarter ended September 30, 2003, due in large part to the rise in key ingredient costs.
- EBITDA, as adjusted (a non-GAAP measure), for the quarter ended September 30, 2004 declined to \$294,002, or 2.5% of net sales, compared with EBITDA, as adjusted, for the quarter ended September 30, 2003 of \$668,277, or 7.2% of net sales.
- Non-cash compensation income of \$121,172, whereas results for the prior-year quarter included non-cash compensation expense of (\$128,258).
- Cash flow used in operating activities during the quarter ended September 30, 2004 totaled (\$1,202,246), compared with cash flow provided by operating activities of \$949,081 in the second quarter of FY2004. The decrease in operating cash flow versus the prior-year period was primarily due to increased accounts receivable and inventory levels resulting from higher sales volumes.



Joanne R. Bethlahmy

Joanne Bethlahmy

Galaxy Nutritional Foods would like to welcome Joanne R. Bethlahmy, an executive with 20 years of experience in strategy development, general management and marketing, as a member of its Board of Directors. She will also serve on the Company's Audit Committee. Ms. Bethlahmy is the Managing Partner of Illuminate Consulting, Inc., a management consulting firm specializing in market strategy for consumer-oriented industries. Most recently, she worked with Chef Solutions Inc., a subsidiary of LSG Lufthansa, a business specializing in providing convenient baked foods and prepared meals to foodservice and retail. Ms. Bethlahmy's career includes major executive assignments with Accenture, Maybelline, the Quaker Oats Company and Frito-Lay.



David H. Lipka, Chairman

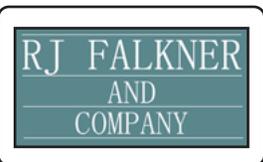
Chairman's Comments

More efficient trade and consumer advertising initiatives resulted in a 28% growth in sales compared to the second quarter FY 2004. Our sales team has been and will continue to diligently make strides in exceeding their goals for FY 2005.

However, we have experienced unprecedented non-recurring increases in raw material prices due in large part to the worldwide casein shortage and costs that resulted from the increased sales. Galaxy's management team will focus on controlling all costs while growing our branded business, which will result in an improved bottom line for the remainder of the Fiscal year. Your Board of Directors is enthusiastic with the continual progress being made toward our long-term strategic goals from a sales, operational, and financial perspective.

RJ Falkner

Galaxy Nutritional Foods has retained RJ Falkner & Company to develop and implement an investor relations program for the Company. RJ Falkner & Company, Inc. is an investment research and financial communications firm that seeks out what it believes are undervalued, small-cap companies with the potential to outperform the overall market on an intermediate and long-term basis. Its research analysts work with the managements of such companies to broaden the companies' exposure within the investment community and expand the level of interest among brokers, money managers and high-net-worth individual investors. RJ Falkner & Company, Inc. has offices in Texas and Colorado. Its website address is www.rjfalkner.com.



Galaxy's new Investment Relations Firm



New Veggie Slices® Package

“We selected RJ Falkner & Company as our investor relations firm because of the relationships that its research analysts have developed within the investment community during the past 35 years and because of its expertise in shareholder communications,” stated Michael E. Broll, Chief Executive Officer of Galaxy Nutritional Foods, Inc. “We are excited to be selected to provide a full range of investor relations services to Galaxy Nutritional Foods,” commented R. Jerry Falkner, CFA, President of RJ Falkner & Company, Inc. “As the leading provider of nutritious dairy alternatives for grocery stores and restaurants, and in light of rising public interest in healthy diets throughout America, we believe Galaxy is well-positioned for significant growth in sales and profitability during the next several years.”

New Packaging

Galaxy Nutritional Foods has long been recognized as the leader and innovator in the healthy and dynamic cheese alternative category. Once again we are leading the category into an exciting direction. With the coming new year, look for vibrant new packaging that will appear on Veggie, Rice, Vegan, and Veggy products. The new packaging will display benefits that are important to today’s health conscious consumers and attract shoppers with high quality graphics.

Track Shack Events

In order to support local causes and increase awareness of healthy living, Galaxy Nutritional Foods is an official sponsor of the 2004 – 2005 Orlando Track Shack Grand Prix series. The Track Shack Grand Prix is a seven race series sanctioned by USATF. Participants run on certified courses in distances of 5k, 5 mile and 10K. There are approximately 1,000 to 2,000 people at each of these events and whether one is a runner or prefers walking for exercise, there is an event for everyone! The fitness-conscious participants and spectators of the events receive samples and coupons for Veggie and Wholesome Valley Organic products during and after the races. For more information about the Track Shack, log-on to www.trackshack.com.

New Quality Assurance Team Member

Victor Schoeppner joined Galaxy as our new Assistant Quality Assurance Manager to assist with the day-to-day activities in the quality assurance department. Victor graduated from Eastern Kentucky University with a Bachelor of Science degree in Agricultural Science. Throughout his career he has held various quality assurance positions at companies such as Swift and Company, Martin Preferred Foods and most recently for Nestle’s Hand Held Frozen Food Division. In these positions, he has been responsible for all aspects of quality assurance and has developed and implemented procedures and processes to improve quality.

We are pleased to add Victor to our team to help ensure that we are producing the best quality products possible.

Preferred Shares

Galaxy Nutritional Foods announced the conversion and redemption of the balance of the Company’s outstanding Series A Preferred Shares. The redemption was funded through a private placement of \$2.3 million in common stock. In transactions that closed October 6, 2004, Mr. Fred DeLuca, the Founder and Chairman of Subway®, increased his previous ownership position in Galaxy via the purchase of 2 million shares of the Company’s common stock at a price of \$1.15 per share. With this additional investment, Mr. Deluca now owns approximately 3.3 million shares of Galaxy’s common stock outstanding and becomes the second-largest shareholder in the Company. Mr. Deluca also received a Warrant to purchase an additional 500,000 shares of the Company’s common stock at the same price of \$1.15 per share.

Also on October 6, 2004, the Company’s Preferred Shareholders (BH Capital Investments, LP and Excalibur Limited Partnership) converted a portion of their outstanding Series A Preferred Shares into approximately 600,000 shares of common stock. Simultaneously, the balance of the Series A Preferred Shares held by the Preferred Shareholders was redeemed for a total price of \$2,279,688. As part of the transaction, the former Preferred Shareholders also received Warrants to purchase up to 500,000 shares of common stock at a purchase price of \$2.00 per share.

Consumer Comments

To Whom It May Concern: I want to compliment your making the Veggie Soy block of 8oz. cheese so tasty. Other brands are so bland they don’t taste like cheese. Your brand is so much more like milk cheese with real flavor. Thank you so much for making it so good.

Sincerely, Beatrice H., Washington, DC

Quarterly Quote

“There are no secrets to success. It is the result of preparation, hard work, and learning from failure.”
- Colin Powell



Track Shack Event



Victor Schoeppner, QA



Consumer

Investor Information:

David H. Lipka, Chairman of the Board

Michael E. Broll, Chief Executive Officer

Salvatore J. Furnari, Chief Financial Officer

Dawn M. Robért, Investor Relations Contact
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