

**P R E S S   R E L E A S E**

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**GALAXY NUTRITIONAL FOODS REPORTS**  
**FISCAL 2002 RESULTS**

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**Company Completes Strategic Investment Program; Expects Major First Q Turnaround**

**ORLANDO, Florida (July 2, 2002)** - Galaxy Nutritional Foods (**AMEX: GXY**), a leading producer of nutritious plant-based dairy alternatives for the retail and foodservice markets, reported a fiscal year 2002 loss after recording approximately \$15 million in non-cash charges and write-downs. For the first quarter ended June 30, 2002 of its fiscal year 2003, the Company is expecting to report a major turnaround in operating results based on the implementation of several cost-cutting measures and increased efficiencies as well as the completion of a strategic capital investment program. The Company is also forecasting that sales, gross margin, operating profit, cash flow and EBITDA will steadily improve during fiscal year 2003.

For its fiscal year 2002 ended March 31, 2002, the Company reported a net loss available to common shareholders of \$(19,147,995), or \$(1.81) loss per diluted share versus a net loss of \$(6,485,763) or \$(0.69) per diluted share for the same period one year ago. Net sales decreased 4% to \$43,581,016 compared with net sales of \$45,421,863 a year ago. For the three months ended March 31, 2002, the Company reported net sales of \$10,080,885 versus sales of \$10,325,699 for the prior quarter ended December 31, 2001.

The \$19.1 million loss for fiscal year 2002 included approximately \$5.4 million in accounts receivable and inventory write-downs, a non-cash compensation charge of approximately \$2.4 million related to stock options, non-cash preferred stock dividends of approximately \$2.1 million, a non-cash deferred income tax expense adjustment of \$1.5 million, approximately \$1 million in fixed asset disposals and unused trade advertising credits, approximately \$3.6 million in interest expense of which \$818,974 was a non-cash charge related to debt discount, and depreciation and amortization expense of approximately \$2.4 million. EBITDA for the fiscal year ended March 31, 2002, plus the aforementioned non-cash charges and write-downs was approximately (\$700,000) or (2%).

Angelo S. Morini, Chairman, President and Chief Executive Officer stated, "During fiscal 2001, with demand for our product soaring, we decided to implement a strategic capital investment program. During that fiscal

year and fiscal 2002, we ordered and installed approximately \$10 million in new production equipment. Unexpected delays in equipment delivery from several manufacturers along with longer than expected equipment installation time, severely restrained our ability to fulfill customer orders and operate efficiently. Had all new equipment been delivered and installed in the projected time frame, we believe Galaxy would now be reporting a significant increase in sales and profits."

Prior to this capital investment period, Galaxy had reported steadily increasing profits and growth for several years. Due to growing demand for Galaxy's products, the equipment in the plant was nearing production capacity. At this point, Galaxy management made the strategic decision to absorb the cost of acquiring new state of the art equipment, which would position the Company for long-term growth and profitability. This new equipment, which is now fully operational, has increased Galaxy's production capacity ten-fold while dramatically improving its efficiencies. The Company believes that this equipment will be sufficient to support maximum sales growth and does not anticipate the need for significant additional capital expenditures over the coming years.

"In the past several months, Galaxy has taken several important steps to effect a turnaround," Mr. Morini continued. "We have streamlined operations, re-engineered our go-to-market business model, strengthened internal controls, increased our efficiencies, and rationalized our product line to focus on higher margin products by reducing our retail and foodservice product lines from 400 to 200 core products, which represents 98% of our business. These inventory reductions and product optimization measures will enable us to operate much more efficiently resulting in higher profit margins for Galaxy. We have also significantly strengthened our management team with the addition of several highly motivated and experienced professionals with very successful track records."

Mr. Morini concluded, "I can report with confidence that results of operations for our first quarter ended June 30, 2002 is expected to show a significant improvement and steady improvement during fiscal 2003. We are in the middle of completing a financial restructuring, which will further secure our turnaround and return to profitable growth. The market for our products continues to skyrocket and Galaxy, despite its hurdles this past fiscal year, remains the undisputed leader in its category with a 91% share of market. While strengthening our operating structure, we remained focused on building our core business as well as expanding our relationships beyond the core with leading companies, including Sumitomo, Wal-Mart, Sbarro, Pizza Hut, Subway and Tropicana. I am also happy to report that during this past year and today, the support of our loyal customers, brokers and vendors has never been stronger based on their belief in our long-term future."

## **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](http://www.galaxyfoods.com).

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