

**P R E S S R E L E A S E**[Press Page](#)

November 11, 2002
Orlando, FL

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GALAXY NUTRITIONAL FOODS REPORTS**2nd QUARTER 2003 EARNINGS PER SHARE OF \$0.06**

Reports a 26% increase in Operating Profits over prior Quarter, EBITDA up 77% over prior Quarter

ORLANDO, Florida (November 11, 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 second quarter of fiscal 2003, ended September 30, 2002. The Company reported fully diluted earnings per share of \$0.06 compared to a dilutive loss per share of \$(0.59) for its second quarter of fiscal 2002, ended September 30, 2001.

For its second quarter ended September 30, 2002, the Company reported net income available to common shareholders, after preferred stock dividends, of \$765,133, or \$0.06 per-share diluted, compared to a net loss of \$(5,893,800), or \$(0.59) per-share diluted for the same period one year-ago. Operating income for the second quarter of fiscal 2003 was \$1,701,875 versus an operating loss of \$(4,327,079) for the second quarter last year. Approximately \$1.35 million of the \$1.7 million net operating profit was income from non-cash benefit related to stock options and warrants.

Gross margin in the second quarter ended September 30, 2002 was up to 30% as compared with 16% for the second quarter last year. Gross margin has increased to 29% for the first six months of fiscal 2003 from an annual rate of 19% in fiscal 2002. **EBITDA** less non-cash items for the second quarter ended September 30, 2002 was \$1,261,298 or 12.5%. This represents a \$590,844 EBITDA increase, or 88%, from the prior quarter ended June 30th, 2002 when EBITDA was \$670,454, or 6.7%. EBITDA for the three months ended September 30, 2002 does not include \$337,337 expense related to the reserve for doubtful accounts and promotions and the

aforementioned \$1.35 million non-cash benefit related to stock options and warrants.

Net sales for the quarter were \$10,117,995 compared to net sales of \$11,372,764 for the comparable quarter one year ago, a decrease of 11%.

Angelo S. Morini, Chairman, President, and Chief Executive Officer of Galaxy, stated, "While we are pleased to have achieved two consecutive quarters of growing operating profitability, sales for the past three consecutive quarters have remained at approximately the same level due primarily to a tactical change of our product mix. This successful strategy has allowed the Company to be profitable at manageable levels. As our operating cash flow improves, we believe we will begin to recognize the benefits of our strategic investment spending on new production equipment. Additionally, we are working on our financial re-structuring, which once completed, should help us grow sales at a faster rate. The demand for our products has never wavered and is stronger than ever. Our market category, one of the fastest growing in the food industry, is expected to grow substantially over the next decade and beyond. I therefore have little doubt that once we have completed our re-financing, we will be on our way to returning to our historical rapid sales growth patterns."

"I believe it is very important at this time to continue strengthening our internal controls and efficiencies, continue to stabilize our raw material costs, and concentrate our selling focus on our higher-margin products," Morini continued. "These measures have positively affected our gross margin, operating profit, cash flow and EBITDA and we expect these controls and strategies will continue to keep Galaxy on a positive operating path."

CONFERENCE CALL INFORMATION

Galaxy will host a teleconference and Webcast to discuss its second quarter 2003 results at 10:00 a.m. EST today, Monday, November 11, 2002. To participate in the conference call, please dial 1-888-208-1812 (United States) or 1-719-457-2654 (International). The call will be simultaneously Webcast at the following link: <http://www.firstcallevents.com/service/ajwz369851557gf12.html>

For those unable to participate in the live conference, there will be an audio replay available from November 11, 2002 after the call through November 15, 2002 at midnight, by dialing 1-888-203-1112 (Domestic) or 1-719-457-0820 (International) and entering the pass code: 712040 for both telephone numbers. In addition, the call will be posted to Galaxy's 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.

GALAXY NUTRITIONAL FOODS, INC.

Statements of Operations

(UNAUDITED)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	<u>SEPTEMBER 30,</u>			
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
NET SALES	\$ 10,117,995	\$ 11,372,764	\$ 20,164,393	\$ 23,174,433
COST OF GOODS SOLD	<u>7,047,230</u>	<u>9,547,698</u>	<u>14,283,734</u>	<u>18,169,634</u>
Gross margin	<u>3,070,765</u>	<u>1,825,066</u>	<u>5,880,659</u>	<u>5,004,799</u>
OPERATING EXPENSES:				
Selling	1,401,342	1,895,611	2,459,673	3,516,096
Delivery	511,954	570,362	1,083,516	1,212,621
Non-cash compensation related to options & warrants	(1,348,089)	2,051,638	(2,985,350)	3,629,267
General and administrative	747,243	1,589,994	1,588,749	2,410,541
Research and development	<u>56,440</u>	<u>44,540</u>	<u>114,214</u>	<u>97,856</u>
Total operating expenses	<u>1,368,890</u>	<u>6,152,145</u>	<u>2,260,802</u>	<u>10,866,381</u>
INCOME (LOSS) FROM OPERATIONS	1,701,875	(4,327,079)	3,619,857	(5,861,582)
Interest expense	<u>969,630</u>	<u>689,844</u>	<u>1,868,102</u>	<u>1,397,112</u>
NET INCOME (LOSS)	\$ 732,245	\$ (5,016,923)	\$ 1,751,755	\$ (7,258,694)
Preferred Stock Dividends	70,000	87,500	140,000	534,400
Preferred Stock Accretion to Redemption Value	<u>(102,888)</u>	<u>789,377</u>	<u>74,697</u>	<u>667,491</u>

NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ <u>765,133</u>	\$ <u>(5,893,800)</u>	\$ <u>1,537,058</u>	\$ <u>(8,460,585)</u>
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BASIC NET INCOME (LOSS) PER COMMON SHARE	\$ <u>0.06</u>	\$ <u>(0.59)</u>	\$ <u>0.13</u>	\$ <u>(0.84)</u>
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DILUTED NET INCOME (LOSS) PER COMMON SHARE	\$ <u>0.06</u>	\$ <u>(0.59)</u>	\$ <u>0.13</u>	\$ <u>(0.84)</u>
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GALAXY NUTRITIONAL FOODS, INC.**EBITDA Reconciliation**

(UNAUDITED)

THREE MONTHS ENDED**SIX MONTHS ENDED****SEPTEMBER 30,****SEPTEMBER 30,**

	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
NET INCOME (LOSS)	\$ 732,245	\$ (5,016,923)	\$ 1,751,755	\$ (7,258,694)
Plus:				
Interest expense	969,630	689,844	1,868,102	1,397,112
Depreciation expense	570,175	590,066	1,138,945	1,045,613
Non-cash compensation related to options & warrants	(1,348,089)	2,051,638	(2,985,350)	3,629,267
Bad debt expense	<u>337,337</u>	<u>475,000</u>	<u>158,300</u>	<u>475,000</u>
EBITDA	<u>\$ 1,261,298</u>	<u>\$ (1,210,375)</u>	<u>\$ 1,931,752</u>	<u>\$ (711,702)</u>
As a % of Sales	<u>12.5%</u>	<u>(10.6%)</u>	<u>9.6%</u>	<u>(3.1%)</u>