



**For Immediate Release:**  
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## **GALAXY NUTRITIONAL FOODS REPORTS THIRD QUARTER OPERATING RESULTS**

**Nine-month Sales Increase 22% to Record \$33.7 Million**

### **Downward Pressure on Gross Margin continues as Key Commodity Costs Remain High**

ORLANDO, Florida (February 14, 2005) Galaxy Nutritional Foods, Inc. (**AMEX:GXY**), a leading producer of nutritious plant-based dairy alternatives for the retail and foodservice markets, today reported its operating results for the third quarter and first nine months of FY2005.

For the three months ended December 31, 2004, net sales increased 10% to approximately \$10.6 million, compared with approximately \$9.6 million in the third quarter of FY2004. The increase in net sales was primarily due to higher contract manufacturing revenues. While contract manufacturing sales generate lower gross profit margins than sales of branded products, the higher sales volume allows the Company to spread its fixed manufacturing costs across a larger revenue base. However, the Company has also continued to incur a substantial increase in the cost of certain key food ingredients and raw materials, which caused gross margin to decline \$579,495 in the most recent quarter, when compared with the prior-year period. A portion of such increased costs will be passed through to customers via price increases through the end of the current fiscal year.

The Company reported a net operating loss of (\$450,845) in the third quarter of FY2005, versus a net operating loss of (\$1,124,420) in the quarter ended December 31, 2003.

“Since the beginning of our second fiscal quarter, Galaxy has been operating in an environment of rapidly escalating raw materials and ingredients costs,” noted Michael E. Broll, Chief Executive Officer of Galaxy Nutritional Foods, Inc. “Casein, packaging, film and transportation costs account for the largest percentage of these increases. Higher casein costs alone accounted for approximately one million dollars of our margin decline in the third quarter, when compared with the prior-year period. Through the first nine months of the current fiscal year, the increase in casein costs was responsible for approximately two million dollars in margin decline relative to the prior-year period.”

“Management has been aggressively reducing non-essential spending and costs in other areas, including corporate overhead, and we have responded by raising finished goods prices,” continued Broll. “As a result, the Company generated a positive operating profit and cash flow during the last

half of our fiscal third quarter, and I am confident that this positive trend will continue for the balance of the fiscal year.”

Results for the third quarter of FY2005 included non-cash compensation expense of (\$361,186), whereas results for the prior-year quarter included non-cash compensation income of \$255,712. Additionally, results for the third quarter of FY2005 and FY2004 included employment contract expense of \$0 and (\$1,830,329), respectively. Excluding these non-cash compensation and employment contract items, the Company’s operating loss, as adjusted (a non-GAAP measure), totaled (\$89,659) in the quarter ended December 31, 2004, compared with operating income, as adjusted, of \$450,197 in the quarter ended December 31, 2003. The \$539,856 decrease in non-GAAP operating income was primarily the result of the narrowing in gross margin mentioned above.

Net loss for the third quarter of FY2005 totaled (\$739,401), versus a net loss of (\$1,378,354) in the quarter ended December 31, 2003. Excluding the non-cash compensation and employment contract items noted above, the Company incurred a net loss, as adjusted (a non-GAAP measure), of (\$378,215) for the quarter ended December 31, 2004, compared with net income, as adjusted, of \$196,263 in the year-earlier period. The \$574,478 decrease in non-GAAP net income was primarily due to the decrease in gross margin, as mentioned above.

After non-cash preferred stock dividends and non-cash preferred stock accretion for estimated redemption value, the Company reported a net loss available to common shareholders of (\$739,401), or (\$0.04) per diluted share, for the quarter ended December 31, 2004, versus a net loss available to common shareholders of (\$1,557,986), or (\$0.10) per diluted share, for the quarter ended December 31, 2003.

EBITDA, as adjusted (a non-GAAP measure), for the quarter ended December 31, 2004, declined to \$451,511, or 4.3% of net sales, compared with EBITDA, as adjusted, for the quarter ended December 31, 2003 of \$998,829, or 10.4% of net sales. EBITDA, as adjusted, is comprised of net income before interest, taxes, depreciation and amortization, and is exclusive of employment contract expense and non-cash compensation related to stock options and warrants.

Cash flow provided by operating activities during the quarter ended December 31, 2004 totaled \$443,570, compared with cash flow provided by operating activities of \$1,157,359 in the third 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.

For the nine months ended December 31, 2004, net sales increased 22% to a record \$33.7 million, compared with approximately \$27.7 million in the corresponding period of the previous fiscal year. The Company reported a net loss of (\$1,820,759) in the first nine months of FY2005, versus a net loss of (\$3,576,603) in the prior-year period. After the deduction of non-cash preferred stock dividends and non-cash preferred stock accretion for estimated redemption value, the Company’s net loss available to common shareholders totaled (\$2,106,936), or (\$0.13) per share, in the nine months ended December 31, 2004, compared with a net loss available to common shareholders of (\$5,411,184), or (\$0.37) per share, in the first nine months of FY2004.

#### **Footnote on non-GAAP Measures Presented Above**

Management utilizes certain non-GAAP measures such as operating income, as adjusted, net income, as adjusted and 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

options and warrants 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, it is 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 800-500-0311 (international/local participants dial 719-457-2698), a few minutes before 11:00 am EST on February 14, 2005. The call will also be broadcast live on the Internet at <http://phx.corporate-ir.net/playerlink.zhtml?c=102653&s=wm&e=1015145>. The call will be archived on the Internet through May 14, 2005 at <http://phx.corporate-ir.net/playerlink.zhtml?c=102653&s=wm&e=1015145>.**

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

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(Financial statements on following pages)

**GALAXY NUTRITIONAL FOODS, INC.**  
**Balance Sheets**

	<b>DECEMBER 31, 2004</b>	<b>MARCH 31, 2004</b>
	<b>(UNAUDITED)</b>	<b>(UNAUDITED)</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 111,618	\$ 449,679
Trade receivables, net	5,253,821	3,964,198
Inventories	5,003,660	4,632,843
Prepaid expenses and other	214,542	266,301
	10,583,641	9,313,021
<b>PROPERTY AND EQUIPMENT, NET</b>	18,758,623	20,232,089
<b>OTHER ASSETS</b>	303,718	416,706
	18,758,623	20,232,089
	303,718	416,706
<b>TOTAL</b>	\$ 29,645,982	\$ 29,961,816
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Line of credit	\$ 5,546,703	\$ 4,605,277
Accounts payable	2,292,650	1,266,346
Accrued liabilities	1,314,926	1,812,300
Warrant liability	500,000	--
Current portion of accrued employment contracts	586,523	366,305
Current portion of term notes payable	1,657,500	1,140,000
Current portion of obligations under capital leases	194,331	231,432
	12,092,633	9,421,660
<b>ACCRUED EMPLOYMENT CONTRACT, less current portion</b>	1,141,433	1,293,142
<b>TERM NOTES PAYABLE, less current portion</b>	6,914,485	8,241,985
<b>OBLIGATIONS UNDER CAPITAL LEASES, less current portion</b>	134,369	204,967
	20,282,920	19,161,754
<b>COMMITMENTS AND CONTINGENCIES</b>	--	--
<b>REDEEMABLE CONVERTIBLE PREFERRED STOCK</b>	--	2,573,581
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock	183,882	156,573
Additional paid-in capital	67,450,115	64,520,084
Accumulated deficit	(45,378,274)	(43,557,515)
	22,255,723	21,119,142
Less: Notes receivable arising from the exercise of stock options and sale of common stock	(12,772,200)	(12,772,200)
Treasury stock, 26,843 shares, at cost	(120,461)	(120,461)
	9,363,062	8,226,481
<b>TOTAL</b>	\$ 29,645,982	\$ 29,961,816

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

	<b>THREE MONTHS ENDED DECEMBER 31,</b>		<b>NINE MONTHS ENDED DECEMBER 31,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>NET SALES</b>	\$ 10,632,877	\$ 9,638,571	\$ 33,725,108	\$ 27,664,259
<b>COST OF GOODS SOLD</b>	8,289,551	6,715,750	25,860,850	19,096,843
Gross margin	2,343,326	2,922,821	7,864,258	8,567,416
<b>OPERATING EXPENSES:</b>				
Selling	1,213,549	1,110,097	4,246,419	3,870,829
Delivery	549,379	544,930	1,757,962	1,430,706
Non-cash compensation related to options & warrants	361,186	(255,712)	402,388	1,179,677
Employment contract expense	--	1,830,329	444,883	1,830,329
General and administrative	595,196	752,123	1,794,506	2,621,621
Research and development	74,861	65,474	226,479	191,466
Total operating expenses	2,794,171	4,047,241	8,872,637	11,124,628
<b>LOSS FROM OPERATIONS</b>	(450,845)	(1,124,420)	(1,008,379)	(2,557,212)
Interest expense	(288,556)	(253,934)	(812,380)	(1,019,391)
Other expense	--	--	--	--
<b>NET LOSS</b>	\$ (739,401)	\$ (1,378,354)	\$ (1,820,759)	\$ (3,576,603)
Preferred Stock Dividends	--	48,556	82,572	157,172
Preferred Stock Accretion to Redemption Value	--	131,076	203,605	1,677,409
<b>NET LOSS AVAILABLE TO COMMON SHAREHOLDERS</b>	\$ (739,401)	\$ (1,557,986)	\$ (2,106,936)	\$ (5,411,184)
<b>BASIC and DILUTED NET LOSS PER COMMON SHARE</b>	\$ (0.04)	\$ (0.10)	\$ (0.13)	\$ (0.37)

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

<b>Nine Months Ended December 31,</b>	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Loss	\$ (1,820,759)	\$ (3,576,603)
Adjustments to reconcile net income (loss) to net cash from (used in) operating activities:		
Depreciation and amortization	1,633,256	1,657,431
Amortization of debt discount and financing costs	65,881	192,078
Provision for losses on trade receivables	109,000	14,000
Non-cash compensation related to options and warrants	402,388	1,179,677
(Increase) decrease in:		
Trade receivables	(1,398,623)	854,539
Inventories	(370,817)	1,208,195
Prepaid expenses and other	51,759	26,492
Increase (decrease) in:		
Accounts payable	1,026,304	(1,151,801)
Accrued liabilities	120,973	1,564,055
	<u>(180,638)</u>	<u>1,968,063</u>
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(77,207)	(175,311)
Decrease in other assets	34,482	1,806
	<u>(42,725)</u>	<u>(173,505)</u>
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Book overdrafts	--	(1,151,276)
Net borrowings (payments) on lines of credit	941,426	(549,916)
Repayments on subordinated note payable	--	(4,000,000)
Borrowings on term note payable	--	2,000,000
Repayments on term notes payable	(810,000)	(1,246,760)
Principal payments on capital lease obligations	(190,282)	(297,821)
Financing costs for long term debt	--	(232,230)
Redemption of preferred stock	(2,279,688)	--
Proceeds from issuance of common stock, net of offering costs	2,223,846	4,158,587
	<u>(114,698)</u>	<u>(1,319,416)</u>
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH</b>	(338,061)	475,142
<b>CASH, BEGINNING OF PERIOD</b>	<u>449,679</u>	<u>1,598</u>
<b>CASH, END OF PERIOD</b>	<u>\$ 111,618</u>	<u>\$ 476,740</u>

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

	<b>THREE MONTHS ENDED</b>		<b>NINE MONTHS ENDED</b>	
	<b>DECEMBER 31,</b>		<b>DECEMBER 31,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>NET SALES</b>	\$ 10,632,877	\$ 9,638,571	\$ 33,725,108	\$ 27,664,259
<b>NET LOSS</b>	\$ (739,401)	\$ (1,378,354)	\$ (1,820,759)	\$ (3,576,603)
<b>Plus:</b>				
Non-cash compensation (income) expense	361,186	(255,712)	402,388	1,179,677
Employment Contract Expense	-	1,830,329	444,883	1,830,329
Interest expense	288,556	253,934	812,380	1,019,391
Depreciation and amortization expense	541,170	548,632	1,633,256	1,657,431
<b>EBITDA, as adjusted</b>	<u>451,511</u>	<u>998,829</u>	<u>1,472,148</u>	<u>2,110,225</u>
<b>As a % of Net Sales</b>	<u><u>4.3%</u></u>	<u><u>10.4%</u></u>	<u><u>4.4%</u></u>	<u><u>7.6%</u></u>

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