



**For Immediate Release:**

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**GALAXY NUTRITIONAL FOODS REPORTS  
2<sup>nd</sup> QUARTER 2004 RESULTS AND  
REVISED FISCAL 2004 FORECAST**

ORLANDO, Florida (November 14, 2003) Galaxy Nutritional Foods, Inc. (**AMEX:GXY**), a leading producer of nutritious plant-based dairy alternatives for the retail and foodservice markets, today reported results for its second quarter of fiscal 2004, ended September 30, 2003.

In the quarter ended September 30, 2003, the Company reported a net loss of \$228,145 compared to a net income of \$732,245 for the quarter ended September 30, 2002. Operating income for the quarter ended September 30, 2003 was \$41,927 compared to \$1,701,875 for the quarter ended September 30, 2002. The results for the quarter ended September 30, 2003 include a \$128,258 expense for non-cash compensation compared to \$1,348,089 income for non-cash compensation for the quarter ended September 30, 2002. Excluding the non-cash compensation charges, the \$515,957 increase in net income was primarily the result of a substantial decrease in interest expense due to the debt refinancing and restructuring, which was completed in the first quarter of fiscal 2004.

Net loss available to common shareholders after non-cash preferred stock dividends and non-cash preferred stock accretion for estimated redemption value was \$933,385, or \$0.06 per diluted share for the quarter ended September 30, 2003 versus a net income of \$541,545, or \$0.04 per diluted share for the quarter ended September 30, 2002.

Net sales were \$9,329,907 and \$10,062,331 in the quarter ended September 30, 2003 and 2002, respectively, a decrease of \$732,424 or 7%. However, the decrease in gross margin was only \$15,171 in the quarter ended September 30, 2003 compared to the quarter ended September 30, 2002. The decrease in net sales is primarily due to a reduction in retail grocery sales from fiscal year 2003. Such reduction is mainly a result of management's previous decision to turn away lower margin private label and sandwich slice business in order to reallocate the Company's limited cash resources (prior to the financial restructuring that was completed on May 30, 2003) for production of higher margin "branded" items. While the effect of this decision caused gross sales to diminish, this approach was the key factor that enabled the Company's gross profit to improve 2% in fiscal 2004 compared to fiscal 2003.

Operating cash flow for the quarter ended September 30, 2003 was \$949,081 compared to operating cash flow of \$186,133 for the quarter ended September 30, 2002. This increase in cash flow in fiscal 2004 was primarily due to a substantial reduction in inventories, in accordance with our adjusted sales forecast.

Since the Company's refinancing is now complete, it has once again begun to pursue strategic private label business, which it previously turned away due to cash constraints. The Company's management has also identified several market factors, which have had a negative effect on the

Company's business. First, consumers eating habits are changing with the recent trend toward low-carbohydrate meal preparation during all meals (breakfast, lunch, snack, and dinner). This has put downward pressure on consumption of items such as bread and complimentary products such as cheese slices. Secondly, the number of consumers shopping in the retail grocery stores is down versus the prior year due to the further emergence and presence of Wal\*Mart. The Company's product selection is growing but still limited at Wal\*Mart. Therefore, the Company's sales growth with this account has not been able to fully counter the decline in retail grocery trends. In response to this change in consumer shopping, the Company is redesigning its products and packaging formats to specifically target the "warehouse" club and mass merchandiser (such as Kmart, Target, and Wal\*Mart) markets.

Christopher J. New, Galaxy's CEO, stated, "Our 2<sup>nd</sup> quarter fiscal 2004 performance was better than expected. We achieved net sales growth of 7% compared to the 1st quarter of fiscal 2004, delivered significant improvement in net income (excluding non-cash compensation), and provided close to \$1 million of cash flow from operations. We expect net sales in the third quarter of fiscal 2004 (ending December 31, 2003) to be comparable to the second quarter of fiscal 2004 after incorporating the seasonal reduction on sales and merchandising due to several holidays."

Mr. New went on to say, "Looking forward, we anticipate that the annual net sales for fiscal 2004 will be equal to or up by 5% compared to net sales for fiscal 2003. This revised net sales forecast of a 0% to 5% increase compared to prior expectations of a 10% increase in net sales reflect (a) recent changes in consumers eating and shopping behavior; (b) slower than expected timing for securing private label opportunities; and (c) slower than expected placement of additional points of distribution of the Company's branded items."

"We are still on the right course and will continue implementation of our strategy to achieve greater availability and visibility of our higher margin branded products. Additionally, now that the Company has sufficient resources, management will also focus its efforts toward generating consumer awareness, product trials, and generating more repeat purchases for its brands. Finally, we are actively redeveloping relationships with strategic private-label customers, which will enable the Company to better utilize some of its excess production capacity. These efforts should result in greater operating cash flow and a higher return on invested capital."

## **CONFERENCE CALL AND WEBCAST INFORMATION**

There will be a teleconference and web-cast of the **Company's 2<sup>ND</sup> Quarter Fiscal 2004 earnings results at 10:00am EST on Monday, November 17, 2003**. The conference call invites all shareholders and interested parties to call in on a toll free line to ask questions about the Company's results and discuss future plans. The toll free number for U.S. and Canada callers is **1-800-811-7286**. All other international callers should dial: **1-913-981-4902**. The conference call pass code for all participants is **380281**.

The call will be simultaneously web-cast at the following link:  
**<http://www.firstcallevents.com/service/ajwz393692333gf12.html>**

Individuals within the U.S. and Canada who cannot access the call are invited to listen to a digitally recorded version by calling the toll free number: **1-888-203-1112**. All other international callers should dial the following number for a digital playback: **1-719-457-0820**. It will be required to reference the pass code # **380281** for all digital playbacks. The playback will be available after the call on Monday, November 17, 2003 through Friday, November 21, 2003 until midnight. The call will be posted to our website the following week at: <http://www.galaxyfoods.com>.

## **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>SEPTEMBER 30, 2003</b>	<b>MARCH 31, 2003</b>
<b>ASSETS</b>	<b>(UNAUDITED)</b>	
<b>CURRENT ASSETS:</b>		
Cash	\$ 217,932	\$ 1,598
Trade receivables, net	4,367,651	5,109,247
Inventories	4,491,056	5,294,500
Prepaid expenses and other	525,418	553,396
Total current assets	9,602,057	10,958,741
<b>PROPERTY AND EQUIPMENT, NET</b>	21,159,692	22,168,404
<b>OTHER ASSETS</b>	440,769	274,918
<b>TOTAL</b>	<b>\$ 31,202,518</b>	<b>\$ 33,402,063</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Book overdrafts	\$ --	\$ 1,151,276
Line of credit	4,731,092	4,939,894
Accounts payable	1,601,483	2,622,996
Accrued liabilities	1,782,167	1,891,773
Current portion of term notes payable	1,181,000	1,497,760
Current portion of subordinated note payable	--	2,000,000
Current portion of obligations under capital leases	302,275	363,152
Total current liabilities	9,598,017	14,466,851
<b>TERM NOTES PAYABLE, less current portion</b>	9,231,985	7,786,985
<b>SUBORDINATED NOTE PAYABLE</b>	--	2,000,000
<b>OBLIGATIONS UNDER CAPITAL LEASES, less current portion</b>	254,545	383,210
Total liabilities	19,084,547	24,637,046
<b>COMMITMENTS AND CONTINGENCIES</b>	--	--
<b>REDEEMABLE CONVERTIBLE PREFERRED STOCK</b>	3,713,392	2,324,671
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock	151,714	127,617
Additional paid-in capital	63,939,117	59,800,732
Accumulated deficit	(42,793,591)	(40,595,342)
Total stockholders' equity	21,297,240	19,333,007
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)
Total stockholders' equity	8,404,579	6,440,346
<b>TOTAL</b>	<b>\$ 31,202,518</b>	<b>\$ 33,402,063</b>

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

	<b>THREE MONTHS ENDED</b>		<b>SIX MONTHS ENDED</b>	
	<b>SEPTEMBER 30,</b>		<b>SEPTEMBER 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
<b>NET SALES</b>	\$ 9,329,907	\$ 10,062,331	\$ 18,025,688	\$ 20,040,035
<b>COST OF GOODS SOLD</b>	6,329,977	7,047,230	12,381,093	14,283,734
Gross margin	2,999,930	3,015,101	5,644,595	5,756,301
<b>OPERATING EXPENSES:</b>				
Selling	1,446,859	1,345,678	2,760,732	2,335,315
Delivery	433,959	511,954	885,776	1,083,516
Non-cash compensation related to options & warrants	128,258	(1,348,089)	1,435,389	(2,985,350)
General and administrative	886,019	747,243	1,869,498	1,588,749
Research and development	62,908	56,440	125,992	114,214
Total operating expenses	2,958,003	1,313,226	7,077,387	2,136,444
<b>INCOME (LOSS) FROM OPERATIONS</b>	41,927	1,701,875	(1,432,792)	3,619,857
Interest expense	270,072	969,630	765,457	1,868,102
<b>NET INCOME (LOSS)</b>	\$ (228,145)	\$ 732,245	\$ (2,198,249)	\$ 1,751,755
Preferred Stock Dividends	53,836	70,000	108,616	140,000
Preferred Stock Accretion to Redemption Value	651,404	120,700	1,546,333	459,977
<b>NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS</b>	\$ (933,385)	\$ 541,545	\$ (3,853,198)	\$ 1,151,778
<b>BASIC NET INCOME (LOSS) PER COMMON SHARE</b>	\$ (0.06)	\$ 0.05	\$ (0.27)	\$ 0.10
<b>DILUTED NET INCOME (LOSS) PER COMMON SHARE</b>	\$ (0.06)	\$ 0.04	\$ (0.27)	\$ 0.09

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

<b>Six Months Ended September 30,</b>	<b>2003</b>	<b>2002</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income (Loss)	\$ (2,198,249)	\$ 1,751,755
Adjustments to reconcile net income (loss) to net cash from (used in) operating activities:		
Depreciation and amortization	1,108,799	1,138,945
Amortization of debt discount and financing costs	152,022	989,205
Provision for losses on trade receivables	(5,000)	158,300
Non-cash compensation related to options and warrants	1,435,389	(2,985,350)
(Increase) decrease in:		
Trade receivables	746,596	184,062
Inventories	803,444	501,719
Prepaid expenses and other	27,978	(37,160)
Increase (decrease) in:		
Accounts payable	(1,021,513)	(953,465)
Accrued liabilities	(238,762)	161,661
	<u>810,704</u>	<u>909,672</u>
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(100,087)	(192,578)
Increase in other assets	1,807	--
	<u>(98,280)</u>	<u>(192,578)</u>
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Book overdrafts	(1,151,276)	(809,285)
Net payments on lines of credit	(208,802)	(624,053)
Repayments on subordinated note payable	(4,000,000)	--
Borrowings on term note payable	2,000,000	500,000
Repayments on term notes payable	(871,760)	(904,840)
Principal payments on capital lease obligations	(189,542)	(230,116)
Financing costs for long term debt	(231,578)	(128,289)
Proceeds from issuance of common stock, net of offering costs	3,796,868	1,480,994
Proceeds from exercise of common stock warrants	360,000	--
	<u>(496,090)</u>	<u>(715,589)</u>
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH</b>	216,334	1,505
<b>CASH, BEGINNING OF PERIOD</b>	<u>1,598</u>	<u>168</u>
<b>CASH, END OF PERIOD</b>	<u>\$ 217,932</u>	<u>\$ 1,673</u>

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