



For Immediate Release:
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GALAXY NUTRITIONAL FOODS REPORTS 3rd QUARTER 2004 RESULTS

ORLANDO, Florida (February 17, 2004) 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 third quarter of fiscal 2004, ended December 31, 2003.

In the quarter ended December 31, 2003, the Company reported a net loss of \$1,378,354 compared to a net loss of \$476,568 for the quarter ended December 31, 2002. The results for the quarter ended December 31, 2003 include non-cash compensation income of \$255,712 and a charge for employment contract expenses of \$1,830,329 compared to non-cash compensation expense of \$190,720 for the quarter ended December 31, 2002. Excluding these non-cash compensation and employment contract charges, the Company had non-GAAP net income of \$196,263 for the quarter ended December 31, 2003 compared to a non-GAAP net loss of \$285,848 for the quarter ended December 31, 2002. This \$482,111 increase in non-GAAP 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, and a decrease in general and administrative expenses in the quarter ended December 31, 2003 compared to December 31, 2002.

In its determination of non-GAAP income or loss, 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. The employment contract expense reflects the total costs that will be paid out over the next five years pursuant to the Amended and Restated Employment Agreement for the Company's founder, Angelo Morini, which became effective as of October 13, 2003. The Company accrued and expensed the five-year cost of this agreement in the quarter ended December 31, 2003. These non-GAAP income or loss 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. Management believes that its presentation of non-GAAP measures provide useful information to management and investors regarding certain financial and business trends relating to its financial condition and results of operations. Additionally, these measures are the primary basis upon which the Company prepares its budgets and forecasts.

After non-cash preferred stock dividends and non-cash preferred stock accretion for estimated redemption value, net loss available to common shareholders was \$1,557,986, or \$0.10 per diluted share for the quarter ended December 31, 2003 versus a net loss available to common shareholders of \$1,823,610, or \$0.15 per diluted share for the quarter ended December 31, 2002.

Net sales were \$9,638,571 and \$9,755,729 in the quarters ended December 31, 2003 and 2002, respectively, a decrease of \$117,158 or 1%. The decrease in net sales is primarily due to a reduction in retail grocery slice sales in fiscal 2004.

Operating cash flow for the quarter ended December 31, 2003 was \$1,157,359 compared to operating cash flow of \$1,084,739 for the quarter ended December 31, 2002. This increase in cash flow in the 3rd quarter of fiscal 2004 was primarily due to a substantial reduction in inventories, in accordance with our adjusted sales forecast.

Christopher J. New, Galaxy's CEO, stated, "We are pleased with our 3rd quarter fiscal 2004 performance where the Company achieved net sales growth of 3% compared to the 2nd quarter of fiscal 2004, provided over \$1.1 million of net cash from operations and reported a non-GAAP net income of \$196,263."

Mr. New went on to say, "Looking forward, we anticipate that the annual net sales for fiscal 2004 will be down by 5% to 9% compared to net sales for fiscal 2003. This reduced net sales forecast compared to prior expectations of an equal to or 5% increase in net sales reflects stronger than expected downward pressure on slices in retail grocery and natural food channels due to (a) ongoing changes in consumer's eating and shopping behavior; (b) slower than expected timing for securing new strategic opportunities; (c) lower than expected performance from additional points of distribution of the Company's branded items; and (d) the impact of the Southern California retail grocery labor strike."

Mr. New also indicated that, "in order to counter these challenges so we may positively impact sales volume going forward into fiscal 2005, the Company is focusing on three primary areas: (1) the Company is shifting the emphasis and resource allocation of its marketing strategy from vendor promotions to consumer advertising and promotions; (2) generating consumer awareness, product trials, and more repeat purchases for its brands; and (3) pursuing strategic opportunities which will enable the Company to better utilize some of its excess production capacity. These moves 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 3rd Quarter Fiscal 2004 earnings results at 10:00am EST on Wednesday, February 18, 2004**. 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 **594933**.

The call will be simultaneously web-cast at the following link:
<http://www.vcall.com/CEPage.asp?ID=86006>

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 # **594933** for all digital playbacks. The playback will be available after 1:00 p.m. EST on Wednesday, February 18, 2004 through Wednesday, February 25, 2004 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.

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(Financial statements on following pages)

GALAXY NUTRITIONAL FOODS, INC.
Balance Sheets

	DECEMBER 31, 2003	MARCH 31, 2003
ASSETS	(UNAUDITED)	
CURRENT ASSETS:		
Cash	\$ 476,740	\$ 1,598
Trade receivables, net	4,240,708	5,109,247
Inventories	4,086,305	5,294,500
Prepaid expenses and other	359,328	553,396
Total current assets	9,163,081	10,958,741
PROPERTY AND EQUIPMENT, NET	20,686,284	22,168,404
OTHER ASSETS	397,158	274,918
TOTAL	\$ 30,246,523	\$ 33,402,063
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Book overdrafts	\$ --	\$ 1,151,276
Line of credit	4,389,978	4,939,894
Accounts payable	1,471,195	2,622,996
Accrued liabilities	2,129,293	1,891,773
Current portion of term notes payable	1,136,000	1,497,760
Current portion of subordinated note payable	--	2,000,000
Current portion of obligations under capital leases	244,744	363,152
Total current liabilities	9,371,210	14,466,851
ACCRUED EMPLOYMENT CONTRACT , less current portion	1,388,026	--
TERM NOTES PAYABLE , less current portion	8,571,985	7,786,985
SUBORDINATED NOTE PAYABLE	--	2,000,000
OBLIGATIONS UNDER CAPITAL LEASES , less current portion	203,797	383,210
Total liabilities	19,535,018	24,637,046
COMMITMENTS AND CONTINGENCIES	--	--
REDEEMABLE CONVERTIBLE PREFERRED STOCK	3,213,849	2,324,671
STOCKHOLDERS' EQUITY:		
Common stock	154,948	127,617
Additional paid-in capital	64,407,314	59,800,732
Accumulated deficit	(44,171,945)	(40,595,342)
	20,390,317	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	7,497,656	6,440,346
TOTAL	\$ 30,246,523	\$ 33,402,063

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	DECEMBER 31,		DECEMBER 31,	
	2003	2002	2003	2002
NET SALES	\$ 9,638,571	\$ 9,755,729	\$ 27,664,259	\$ 29,795,764
COST OF GOODS SOLD	6,715,750	6,805,863	19,096,843	21,089,597
Gross margin	2,922,821	2,949,866	8,567,416	8,706,167
OPERATING EXPENSES:				
Selling	1,110,097	1,240,544	3,870,829	3,575,859
Delivery	544,930	478,331	1,430,706	1,561,847
Non-cash compensation related to options & warrants	(255,712)	190,720	1,179,677	(2,794,630)
Employment contract expense	1,830,329	--	1,830,329	--
General and administrative	752,123	864,399	2,621,621	2,453,148
Research and development	65,474	60,674	191,466	174,888
Total operating expenses	4,047,241	2,834,668	11,124,628	4,971,112
INCOME (LOSS) FROM OPERATIONS	(1,124,420)	115,198	(2,557,212)	3,735,055
Interest expense	(253,934)	(536,766)	(1,019,391)	(2,404,868)
Other expense	--	(55,000)	--	(55,000)
NET INCOME (LOSS)	\$ (1,378,354)	\$ (476,568)	\$ (3,576,603)	\$ 1,275,187
Preferred Stock Dividends	48,556	69,020	157,172	209,020
Preferred Stock Accretion to Redemption Value	131,076	1,278,022	1,677,409	1,737,999
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	\$ (1,557,986)	\$ (1,823,610)	\$ (5,411,184)	\$ (671,832)
BASIC and DILUTED NET LOSS PER COMMON SHARE	\$ (0.10)	\$ (0.15)	\$ (0.37)	\$ (0.06)
NET INCOME (LOSS)	\$ (1,378,354)	\$ (476,568)	\$ (3,576,603)	\$ 1,275,187
Plus:				
Non-cash compensation related to options & warrants	(255,712)	190,720	1,179,677	(2,794,630)
Employment contract expense	1,830,329	--	1,830,329	--
NON-GAAP REPORTING OF NET INCOME (LOSS)	\$ 196,263	\$ (285,848)	\$ (566,597)	\$ (1,519,443)

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

Nine Months Ended December 31,	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$ (3,576,603)	\$ 1,275,187
Adjustments to reconcile net income (loss) to net cash from (used in) operating activities:		
Depreciation and amortization	1,657,431	1,707,586
Amortization of debt discount and financing costs	192,078	1,120,145
Provision for losses on trade receivables	14,000	(136,700)
Non-cash compensation related to options and warrants	1,179,677	(2,794,630)
(Increase) decrease in:		
Trade receivables	854,539	1,104,625
Inventories	1,208,195	620,921
Prepaid expenses and other	26,492	(44,253)
Increase (decrease) in:		
Accounts payable	(1,151,801)	(1,054,170)
Accrued liabilities	1,564,055	195,700
	<u>1,968,063</u>	<u>1,994,411</u>
NET CASH FROM (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(175,311)	(195,868)
Decrease in other assets	1,806	--
	<u>(173,505)</u>	<u>(195,868)</u>
NET CASH FROM (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Book overdrafts	(1,151,276)	(615,998)
Net payments on lines of credit	(549,916)	(1,357,791)
Repayments on subordinated note payable	(4,000,000)	--
Borrowings on term note payable	2,000,000	500,000
Repayments on term notes payable	(1,246,760)	(1,336,363)
Principal payments on capital lease obligations	(297,821)	(339,636)
Financing costs for long term debt	(232,230)	(128,289)
Proceeds from issuance of common stock, net of offering costs	3,798,587	1,480,994
Proceeds from exercise of common stock warrants	360,000	--
	<u>(1,319,416)</u>	<u>(1,797,083)</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	475,142	1,460
CASH, BEGINNING OF PERIOD	<u>1,598</u>	<u>168</u>
CASH, END OF PERIOD	<u>\$ 476,740</u>	<u>\$ 1,628</u>