



QUARTERLY INSIGHT

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1st QUARTER ENDING
JUNE 30, 2004

David H. Lipka, *Chairman of the Board*
Michael E. Broll, *Chief Executive Officer**
Salvatore J. Furnari, *Chief Financial Officer*

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FISCAL 2004 RESULTS

For our fiscal year ending March 31, 2004, Galaxy Nutritional Foods reported an increase in operating cash flow and gross margin. Highlights of the year's financial results include:

- Net cash flow provided by operating activities improved from \$1.2M in Fiscal 2003 to \$2.2M in Fiscal 2004.
- Net loss, as adjusted, was (\$481K) compared to a net loss, as adjusted, of (\$1.9M) in the prior year.
- Gross margin percentage improved from 29.8% in Fiscal 2003 to 31.3% in Fiscal 2004.
- EBITDA, as adjusted, for the year was \$3.1M or 8.5% of net sales versus an EBITDA, as adjusted, for Fiscal 2003 of \$3.3M or 8.3% of net sales.

SETTLEMENT WITH SCHREIBER



May 11th marked Galaxy Nutritional Foods' out-of-court settlement in a lawsuit file by Schreiber Foods, Inc.

against Galaxy, which alleged various acts of patent infringement. In a settlement agreement, the parties have agreed to have all claims in the patent infringement lawsuit dismissed. Pursuant to this settlement, Galaxy and Schreiber have also entered into a licensing agreement that permits Galaxy to continue using the manufacturing equipment named in the lawsuit. There was no financial consideration in either the settlement of the lawsuit or the licensing agreement. The term of the license extends through the life of all patent named in the lawsuit (and all related patents) and is assignable by Galaxy.

WORLD EXPANSION

Global expansion continues to be one of the driving forces in Galaxy's distribution goals. Dave Bennett, who is our broker representative for the Caribbean and South



America, recently secured distribution of Veggie products to Guatemala. The Guatemalan consumers will have a wide variety of healthy cheese alternatives available to them with slices, shreds, cream cheese and butter becoming available.



CHAIRMAN'S COMMENTARY

Our Fiscal 2004 figures have recently been reported and the future looks bright for Galaxy. Not only did we increase our gross margin percentage, but we also improved our net cash flow by \$1.2M! Galaxy's sales team is exceeding their goals and we are currently above plan for our first quarter in Fiscal 2005.

Our consumer marketing plan is underway, which will reach current and new customers in order to increase product consumption and gain household penetration. Our fiscal year 2004 lead market advertising campaign proved to be successful with increased distribution and baseline sales. We have expanded our lead market test to a national advertising campaign that focuses on key markets. Consumer awareness and superior product quality are the driving factors to increase sales.

Through strategic partnerships, product improvement, increased distribution and a motivated sales team, we are on target for our sales plan for fiscal year 2005!

ORGANIC SALES UPDATE

The introduction of four new Wholesome Valley SKUs has increased our year-to-date sales 470% over last year! We are projecting 235% sales growth for Fiscal 2005. Our goal is to increase availability and visibility due to the popularity and growth of the organic industry.



DARDEN'S REDUCED FINISHED PRODUCT TESTING QUALIFICATION



Darden Restaurants, recently initiated requirements for a higher level of microbiological testing with product categories that are considered "high risk" due to their association with food borne illness outbreaks. Galaxy Nutritional Foods was named a participant in Darden Restaurant's High Risk Supplier Program. The superior Quality Assurance measurement and standards that have been put in place has qualified us for Reduced Finished Product Testing within the High Risk Supplier Program. Our participation in this program will reduce our finished product testing costs while maintaining an edge on food safety standards.

About Darden:

Darden Restaurants, Inc. is the largest casual dining restaurant company in the world. It operates more than 1,300 Red Lobster, Olive Garden, Bahama Breeze, Smokey Bones BBQ, and Seasons 52 restaurants in North America, leading each of its market segments and employing more than 140,000 people.

DARDEN



VEGGIE ONLINE

To ensure availability of Veggie and Soyco products, Galaxy Nutritional Foods will implement an online ordering option for our customers. The online ordering option should be available late summer or early fall.

Although our availability and visibility has dramatically increased over the past year, we want to offer our loyal customers an option to order their favorite products if they are not readily available at their local grocery and natural foods stores. The website will feature about forty items that can be shipped virtually anywhere in the United States and Canada.

VEGGIE SHREDS - CLUB PACK

Earlier this year, Galaxy Nutritional Foods introduced 2-pound Veggie Shreds for club stores. The products have been a big hit with Costco shoppers, and have expanded from San Diego to also shipping to Seattle and the Northeast division.

About Costco:

Costco Wholesale Corporation operates an international chain of membership warehouses, mainly under the "Costco Wholesale" name, that carry quality, brand name merchandise at substantially lower prices than are typically found at conventional wholesale or retail sources. Individuals who are members of selected employee groups are also able to purchase for their personal needs.



***EDITOR'S NOTE:** As announced in a Galaxy press release dated July 12, 2004, Mr. Michael Broll has been hired as our new CEO, upon Chris New's departure. For additional information about Mr. Broll, please visit our website at the following address: <http://www.galaxyfoods.com/press.html>

This is not a solicitation to buy or sell Galaxy securities and does not purport to be a complete analysis of Galaxy's financial position.



GALAXY'S PROMOTIONS

Tom Perno:

In further pursuit of transformation growth and to create efficient and effective operating functions, Tom Perno has been promoted to Vice President of Operations. This change will allow Tom to further direct and enhance all of operations including Production, Quality, Engineering, Warehousing, Traffic, inventory and Customer Service. With the help of his team, Tom will continue to focus his efforts on examining and improving our operational processes and procedures to ensure that we are streamlined, centralized and "best in class"!

Tom has been with Galaxy for over 21 years and in that time has proven to be hard working, loyal and an effective team leader. His commitment and contributions have created core competencies in manufacturing and have been pivotal in our business performance turnaround. Congratulations Tom on your well-deserved promotion.



Gilbran Laureano:

Foodservice has been a profitable market for Galaxy with plenty of opportunity for growth. Gilbran Laureano has provided outstanding customer service for the past 5 years to our foodservice customers. For this reason, it is with great pleasure to announce Gilbran's change in roles to Foodservice Manager for the state of Florida. He will be transitioning from the customer service department, where he has provided outstanding support for the past 5 years. He'll be focused on foodservice accounts in the state, and key Sysco shows throughout the country. Gilbran's great personality, sense of humor and willingness to learn will be a great asset to the Galaxy Sales Team.

CONSUMER FEEDBACK

"Thought you should know, we tried your mozzarella flavor Veggie Slices a couple of weeks ago and, it's unanimous, we really like them...We're always willing to try new foods, but have not always been pleased with our purchases, and we don't mind saying so. We also feel that if we're willing to complain, we ought to be just as willing to write and compliment a manufacturer if we find a product that we like. And that's the reason for this letter. Thanks!"

Sincerely, The Clarks

QUARTERLY QUOTE

Every day you may make progress. Every step may be fruitful. Yet there will stretch out before you an ever-lengthening, ever-ascending, ever-improving path. You know you will never get to the end of the journey. But this, so far from discouraging, only adds to the joy and glory of the climb.

- Sir Winston Churchill

