

FORM 10-Q/A

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended September 30, 2002

Commission File Number 1-15345

GALAXY NUTRITIONAL FOODS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

25-1391475

(I.R.S. Employer
Identification No.)

2441 Viscount Row

Orlando, Florida

(Address of principal executive offices)

32809

(Zip Code)

(407) 855-5500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES NO

On November 8, 2002, there were 12,131,295 shares of Common Stock \$.01 par value per share, outstanding.

Explanatory Note

The Company is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 previously filed with the Securities and Exchange Commission on November 12, 2002 (the “Quarterly Report”) to effect the adjustments described below.

Results for the quarter ended September 30, 2002, reflect a correction in the calculation and related disclosures for preferred stock accretion and the value of preferred stock. This correction increased the preferred stock accretion for estimated redemption value, which then decreased net income available to common shareholders by \$223,588 and \$385,280 on the Company’s Statements of Operations for three and six months ended September 30, 2002. The value of preferred stock also reflects an increase of \$79,684 from that previously reported on the Company’s Balance Sheets. These changes have no affect on the Company’s revenue, operating income, net income or cash flow.

The Company’s Statements of Operations were adjusted to reflect a re-classification of expenses for coupons, rebates and other price discounts from selling expenses to net sales in accordance with Emerging Issues Task Force 01-09, “Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products).” Additionally, the Company’s Statement of Cash Flows and related disclosures were adjusted to reflect a re-classification of payments and amortization of financing costs related to long-term debt.

This Amendment only updates Part I - Item 1 and Item 2 and Part II - Item 6 for the corrections and reclassifications mentioned above and does not otherwise update disclosures for events that occurred subsequent to the original filing date of the Quarterly Report.

GALAXY NUTRITIONAL FOODS, INC.

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PART I. FINANCIAL INFORMATION
GALAXY NUTRITIONAL FOODS, INC.
Balance Sheets

	SEPTEMBER 30, 2002	MARCH 31, 2002
	<u>(UNAUDITED)</u>	
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,673	\$ 168
Trade receivables, net	4,940,825	5,283,187
Inventories	5,246,933	5,748,652
Prepaid expenses and other	<u>592,680</u>	<u>555,520</u>
Total current assets	10,782,111	11,587,527
PROPERTY AND EQUIPMENT, NET	23,329,032	24,180,636
OTHER ASSETS	<u>641,551</u>	<u>479,387</u>
TOTAL	<u>\$ 34,752,694</u>	<u>\$ 36,247,550</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Book overdrafts	\$ 383,571	\$ 1,192,856
Line of credit	4,899,822	5,523,875
Accounts payable	3,255,176	5,399,143
Accrued liabilities	1,709,502	994,341
Current portion of term notes payable	2,035,436	1,809,000
Current portion of subordinated note payable	4,000,000	--
Current portion of obligations under capital leases	<u>391,363</u>	<u>349,380</u>
Total current liabilities	16,674,870	15,268,595
TERM NOTES PAYABLE, less current portion	8,107,734	8,391,535
SUBORDINATED NOTE PAYABLE	--	3,385,770
OBLIGATIONS UNDER CAPITAL LEASES, less current portion	<u>556,820</u>	<u>734,156</u>
Total liabilities	25,339,424	27,780,056
COMMITMENTS AND CONTINGENCIES	--	--
REDEEMABLE CONVERTIBLE PREFERRED STOCK	2,301,942	2,156,311
STOCKHOLDERS' EQUITY:		
Common stock	121,313	115,400
Additional paid-in capital	59,760,391	60,717,914
Accumulated deficit	<u>(39,877,715)</u>	<u>(41,629,470)</u>
	20,003,989	19,203,844
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	<u>(120,461)</u>	<u>(120,461)</u>
Total stockholders' equity	7,111,328	6,311,183
TOTAL	<u>\$ 34,752,694</u>	<u>\$ 36,247,550</u>

See accompanying notes to financial statements.

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2002	2001	2002	2001
NET SALES	\$ 10,062,331	\$ 11,225,584	\$ 20,040,035	\$ 22,928,575
COST OF GOODS SOLD	7,047,230	9,547,698	14,283,734	18,169,634
Gross margin	3,015,101	1,677,886	5,756,301	4,758,941
OPERATING EXPENSES:				
Selling	1,345,678	1,748,431	2,335,315	3,270,238
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	56,440	44,540	114,214	97,856
Total operating expenses	1,313,226	6,004,965	2,136,444	10,620,523
INCOME (LOSS) FROM OPERATIONS	1,701,875	(4,327,079)	3,619,857	(5,861,582)
Interest expense	969,630	689,844	1,868,102	1,397,112
NET INCOME (LOSS)	\$ 732,245	\$ (5,016,923)	\$ 1,751,755	\$ (7,258,694)
Preferred Stock Dividends	70,000	446,900	140,000	534,400
Preferred Stock Accretion to Redemption Value	120,700	429,977	459,977	667,491
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ 541,545	\$ (5,893,800)	\$ 1,151,778	\$ (8,460,585)
BASIC NET INCOME (LOSS) PER COMMON SHARE	\$ 0.05	\$ (0.59)	\$ 0.10	\$ (0.84)
DILUTED NET INCOME (LOSS) PER COMMON SHARE	\$ 0.04	\$ (0.59)	\$ 0.09	\$ (0.84)

See accompanying notes to financial statements.

GALAXY NUTRITIONAL FOODS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Notes Receivable for Common Stock	Treasury Stock	Total
	Shares	Par Value					
Balance at March 31, 2002	11,540,041	\$ 115,400	\$ 60,717,914	\$ (41,629,470)	\$ (12,772,200)	\$ (120,461)	\$ 6,311,183
Exercise of options	1,000	10	4,240	--	--	--	4,250
Issuance of common stock	586,773	5,868	2,304,159	--	--	--	2,310,027
Issuance of common stock under employee stock purchase plan	3,481	35	9,709	--	--	--	9,744
Issuance of warrants	--	--	70,000	--	--	--	70,000
Non-cash compensation related to options under non-recourse note receivable	--	--	(3,060,000)	--	--	--	(3,060,000)
Dividends on preferred stock	--	--	(140,000)	--	--	--	(140,000)
Accretion of discount on preferred stock	--	--	(145,631)	--	--	--	(145,631)
Net income	--	--	--	1,751,755	--	--	1,751,755
Balance at September 30, 2002	12,131,295	\$ 121,313	\$ 59,760,391	\$ (39,877,715)	\$ (12,772,200)	\$ (120,461)	\$ 7,111,328

See accompanying notes to financial statements.

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

Six Months Ended September 30,	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$ 1,751,755	\$ (7,258,694)
Adjustments to reconcile net income (loss) to net cash from (used in) operating activities:		
Depreciation and amortization	1,138,945	1,045,613
Amortization of debt discount and financing costs	989,205	273,279
Provision for losses on trade receivables	158,300	475,000
Non-cash compensation related to options under non-recourse note receivable	(3,060,000)	3,621,143
Amortization of consulting and director fee expense paid through issuance of common stock warrants	74,650	8,124
(Increase) decrease in:		
Trade receivables	184,062	(672,527)
Inventories	501,719	3,998,117
Prepaid expenses and other	(37,160)	1,580
Increase (decrease) in:		
Accounts payable	(953,465)	(2,342,338)
Accrued liabilities	161,661	215,052
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>909,672</u>	<u>(635,651)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(192,578)	(371,439)
Increase in other assets	--	(1,883)
NET CASH USED IN INVESTING ACTIVITIES	<u>(192,578)</u>	<u>(373,322)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in book overdrafts	(809,285)	201,874
Net payments on line of credit	(624,053)	(1,809,384)
Borrowings on term note payable	500,000	--
Repayments on term notes payable	(904,840)	(458,964)
Principal payments on capital lease obligations	(230,116)	(90,357)
Financing costs for long term debt	(128,289)	(25,000)
Proceeds from issuance of common stock, net of offering costs	1,476,744	3,017,745
Proceeds from exercise of common stock options	4,250	19,521
Proceeds from issuance of preferred stock, net of costs	--	2,900,959
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(715,589)</u>	<u>3,756,394</u>
NET INCREASE IN CASH	1,505	2,747,421
CASH, BEGINNING OF YEAR	<u>168</u>	<u>500</u>
CASH, END OF YEAR	<u><u>\$ 1,673</u></u>	<u><u>\$ 2,747,921</u></u>

See accompanying notes to financial statements.

GALAXY NUTRITIONAL FOODS, INC.
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

(1) Summary of Significant Accounting Policies

The unaudited financial statements have been prepared by the Company, under the rules and regulations of the Securities and Exchange Commission. The accompanying financial statements contain all normal recurring adjustments which are, in the opinion of management, necessary for the fair presentation of such financial statements. Certain information and disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been omitted under such rules and regulations although the Company believes that the disclosures are adequate to make the information presented not misleading. The March 31, 2002 balance sheet data was derived from the audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These unaudited financial statements should be read in conjunction with the financial statements and notes included on Form 10-K for the fiscal year ended March 31, 2002. Interim results of operations for the six-month period ended September 30, 2002 may not necessarily be indicative of the results to be expected for the full year.

Net Income (Loss) per Common Share

Net income (loss) per common share is computed by dividing net income or loss by the weighted average shares outstanding. Diluted income (loss) per common share is computed on the basis of weighted average shares outstanding plus potential common shares which would arise from the exercise of stock options, warrants and conversion of the Series A preferred stock.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expense during the reporting period. The Company's significant estimates include the allowance for doubtful accounts receivable and valuation of deferred taxes and warrants. Actual results could differ from those estimates.

New Accounting Pronouncements

In July 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146 "Accounting for Costs Associated with Exit or Disposal Activities," which is effective January 1, 2003. SFAS 146 provides that an exit cost liability should not always be recorded at the date of an entity's commitment to an exit plan, but instead should be recorded when the obligation is incurred. An entity's commitment to a plan, by itself, does not create an obligation that meets the definition of a liability. The Company does not expect SFAS 146 to have a material impact on its financial condition and results of operations.

Reclassifications

Certain items in the financial statements of the prior period have been reclassified to conform to current period presentation.

Segment Information

The Company does not identify separate operating segments for management reporting purposes. The results of operations are the basis on which management evaluates operations and makes business decisions. The Company's sales are generated primarily within the United States of America.

(2) Inventories

Inventories are summarized as follows:

	September 30, 2002	March 31, 2002
	(Unaudited)	
Raw materials	\$ 2,704,513	\$ 2,482,458
Finished goods	2,542,420	3,266,194
Total	<u>\$ 5,246,933</u>	<u>\$ 5,748,652</u>

(3) Line of Credit and Notes Payable

As of September 30, 2002, the Company had a line of credit with a maximum principal amount of \$7.5 million from FINOVA Capital Corporation ("FINOVA Capital"), the proceeds of which are for working capital purposes. The amount that the Company can borrow under the line of credit is based on a formula of up to 80% of eligible accounts receivable plus 50% of eligible inventories not to exceed \$3 million, as defined in the agreement. Pursuant to a certain Amendment and Limited Waiver to Security Agreement dated June 26, 2002, the inventory advance rate decreases by 1% per month beginning July 1, 2002 from a level of 50% at June 30, 2002 to 37% by the maturity date (47% at September 30, 2002). The line of credit is secured by all accounts receivable, inventory, machinery, equipment, trademarks and patents owned by the Company. Interest is payable monthly on the outstanding draws on the line of credit at a rate of prime plus four percent (8.75% at September 30, 2002). The line of credit expires on July 1, 2003, at which time the entire outstanding principal amount of the line of credit, and all accrued but unpaid interest thereon, is due and payable in full. As of September 30, 2002, the Company had an outstanding balance of \$4,899,822 under this line.

On September 30, 1999, the Company obtained a \$4 million subordinated loan from FINOVA Mezzanine Capital, Inc. ("FINOVA Mezzanine"). The Company received loan proceeds in the amount of \$3,620,000 after paying loan costs of \$380,000. Amounts outstanding under the loan are secured by a subordinated lien on substantially all of the Company's assets. A balloon payment of the entire principal amount of the loan, and all accrued but unpaid interest thereon, is due upon maturity on July 1, 2003. Interest on the loan is payable monthly at a rate of 15.5% per annum. In consideration of the loan, the Company issued to FINOVA Mezzanine a warrant to purchase 915,000 shares of our common stock (of which 100,000 shares remain unexercised) at an exercise price of \$3.41 per share which represented 80% of the fair value of our stock on the date the warrant was issued. The warrant was valued at \$786,900 which was recorded as a debt discount and was amortized to interest expense from the date of issuance of the note to an original earlier maturity date of the note in October 2002. As of September 30, 2002, this discount has been fully amortized to interest expense and the Company had an outstanding balance of \$4,000,000 under this loan.

The line of credit and subordinated loan described above contain certain financial and operating covenants. In June 2002, the Company notified FINOVA Capital and FINOVA Mezzanine that it had failed to comply with the minimum operational cash flow to contractual debt service ratio and the funded debt to EBITDA ratio. FINOVA Capital agreed to waive those violations for the fiscal year ended March 31, 2002 and the fiscal quarter ended June 30, 2002 and to amend such covenants for the fiscal quarters beginning July 1, 2002, pursuant to a certain Amendment and Limited Waiver to Security Agreement dated June 26, 2002. FINOVA Mezzanine also agreed to waive the violations of its covenants for the fiscal year ended March 31, 2002 and the fiscal quarter ended June 30, 2002, and to amend those covenants for future fiscal quarters pursuant to a letter agreement dated June 26, 2002 and amendments to the subordinated notes. In consideration of the waivers and covenant amendments, the Company agreed to pay a facility fee of \$413,500, which was deemed fully earned on June 26, 2002. The facility fee is payable as follows: \$172,500 is due and payable on the earliest of (a) July 1, 2003, (b) the occurrence of an event of default, or (c) the date on which the Company repays either all of the obligations to FINOVA Capital under the Loan Agreement or any portion of the principal obligations to FINOVA Mezzanine under the FINOVA Mezzanine loan documents, with the balance of \$241,000 due and payable only upon FINOVA Mezzanine's exercise of its remaining 100,000 warrants. The Company was in compliance with all revised covenants for the quarter ended September 30, 2002.

In March 2000, the Company obtained a \$10 million term loan from SouthTrust Bank, N.A. This note bears interest at prime rate (4.75% at September 30, 2002) and is due in monthly principal installments of \$93,000 plus interest. In a letter agreement dated September 27, 2002, the bank deferred the four principal payments, due in June 2002 through September 2002, until the maturity of the note. The note matures in March 2005. The balance outstanding on this note as of September 30, 2002 was \$8,593,734. This term loan is secured by certain machinery and equipment.

In October 2000, the Company's president guaranteed a \$1.5 million short-term bridge loan that it obtained from SouthTrust Bank, N.A. by pledging one million of his shares of the Company's common stock to secure the loan. Interest on this note is at the prime rate (4.75% at September 30, 2002). The loan is being paid down by monthly principal payments of \$50,000 plus interest. In a letter agreement dated September 27, 2002, the bank deferred the four principal payments, due in June 2002 through September 2002, until the maturity of the note. The note matures in October 2003. The balance outstanding on this note as of September 30, 2002 was \$900,000.

The term loan and the short-term bridge loan from SouthTrust Bank, N.A. contain certain financial and operating covenants. The Company was in violation of all financial covenants at March 31, 2002. On June 27, 2002, the Company received a waiver for the year ended March 31, 2002 and for all future periods through July 1, 2003.

In March 2002, Angelo Morini, the Company's Chief Executive Officer and President, obtained a personal home equity line of credit and loaned \$330,000 to the Company in order for it to pay down certain notes payable that were coming due. This loan bears interest at prime (4.75% at September 30, 2002) and is due on or before June 15, 2006.

On June 26, 2002, the Company signed a \$550,000 promissory note with Excalibur Limited Partnership, one of the holders of the Company's Series A Preferred Stock. In consideration of the note, the Company issued Excalibur Limited Partnership a warrant to purchase 30,000 shares of Common Stock, which are exercisable until June 26, 2007 at a price equal to \$5.50 per share. This note was non-interest bearing assuming that it was repaid on or before July 26, 2002. This note was secured by 250,000 shares of Common Stock owned by the Angelo S. Morini, the Company's Chief Executive Officer and President. In consideration of his guarantee and related pledge, the Company granted Mr. Morini stock options to acquire 289,940 shares of Common Stock at an exercise price of \$5.17 (110% of market) per share. These options have subsequently been repriced to \$2.05 (See Note 9), and shall expire on July 1, 2007. On June 26, 2002, the Company received loan proceeds in the amount of \$500,000 in cash. The additional \$50,000 was retained by Excalibur Limited Partnership as payment for consulting fees due to Excalibur Limited Partnership in accordance with a consulting agreement entered into on June 26, 2002, which expires December 31, 2002. This note was paid in full on June 28th from proceeds derived from the issuance of common stock as discussed in Note 5.

On August 15, 2002, the Company signed a \$347,475 promissory note with Target Container, Inc. in satisfaction of its accounts payable obligation to this vendor. This note bears interest at 7% per annum and is due in twelve equal monthly installments of \$30,066. The balance outstanding on this note as of September 30, 2002 was \$319,436.

(4) Commitments and Contingencies

On May 17, 2002, Schreiber Foods, Inc. of Green Bay Wisconsin filed a lawsuit against the Company in the federal district court for the Eastern District of Wisconsin ("Wisconsin lawsuit"), being Case No. 02-C-0498, alleging various acts of patent infringement. The Complaint alleges that the Company's machines for wrapping of individual cheese slices, manufactured by Kustner Industries, S.A. of Switzerland, known as models KE and KD, and the Company's machines for producing individually wrapped slices manufactured by Hart Design Mfg., Inc. of Green Bay, Wisconsin, infringe unspecified claims of U.S. Patents Nos. 5,440,860, 5,701,724 and 6,085,680. Additionally, the Complaint refers to U.S. Patent No. 5,112,632, but it does not explicitly allege infringement of that patent; because the case is in the earliest stages, there has not yet been an opportunity to determine whether Schreiber Foods intends to pursue allegations of infringement of the 5,112,632 Patent against the Company. Schreiber Foods is seeking a preliminary and permanent injunction prohibiting the Company from further infringing acts and is also seeking damages in the nature of either lost profits or reasonable royalties.

On or about July 10, 2002, the Company filed a Motion to Dismiss the Wisconsin lawsuit on the grounds that Schreiber Technologies, Inc., not Schreiber Foods, is the owner of the asserted patents. Also on July 10, 2002, the Company filed a Declaratory Judgment action against Schreiber Technologies, Inc. in the federal court for the Middle District of Florida, being case No. 02-CV-784, seeking a declaration that the Company does not infringe these patents and/or that the patents are invalid and unenforceable. Schreiber Foods has opposed the Motion to Dismiss claiming that it reacquired ownership of the patents. Schreiber Technologies has moved to dismiss the Florida action claiming that it does not own the patents.

The Company is not in a position at this time to express a view on the likelihood that it will succeed in its position, nor in the amount of damages that might be awarded against it should it be unsuccessful in that regard.

(5) Capital Stock

On April 6, 2001, in accordance with an exemption from registration under Regulation D promulgated under the Securities Act of 1933, as amended, the Company received from BH Capital Investments, L.P. and Excalibur Limited Partnership (the "Series A Preferred Holders") proceeds of approximately \$3,082,000 less costs of \$181,041 for the issuance of 72,646 shares of the Company's Series A convertible preferred stock with a face value of \$3,500,000 and warrants to purchase shares of the Company's common stock. The shares are subject to certain designations, preferences and rights, including the right to convert such shares into shares of common stock at any time. The per share conversion price is the lower of (x) \$4.08 or (y) 95% of the average of the two lowest closing bid prices on the American Stock Exchange of the common stock out of the fifteen trading days prior to conversion. The liquidation preference of each preferred share is approximately \$48.18 plus accrued dividends that are then unpaid for each share of the Series A convertible preferred stock (\$54.93 at September 30, 2002).

In no case, however, shall any Series A Preferred Holder be permitted to convert the Series A convertible preferred stock in an amount that would cause such holder to beneficially own at any given time, in the aggregate, such number

of shares of common stock which would exceed 9.99% of the aggregate outstanding shares of common stock, unless such holder waives such restriction upon not less than 61 days prior notice to the Company. The number of shares issuable upon conversion of the Series A convertible preferred stock will vary depending upon the closing bid prices of the Company's common stock on the AMEX.

The Series A Preferred Holders have the right to require the Company to redeem their shares of preferred stock on April 6, 2005 or upon occurrence of other events, as defined. The redemption price shall be paid in cash at a price per preferred share equal to the greater of (a) 100% of the preference amount (\$48.18 plus accrued dividends) or (b) an amount equal to the number of shares of common stock that would be then issuable upon conversion of the preferred stock and times the market price on the date of redemption. The market price is based on a five-day average of the closing bid prices for the five trading days prior to the date of redemption.

The Series A Preferred Holders have the right to receive on any outstanding Series A convertible preferred stock a ten percent stock dividend on the shares, payable one year after the issuance of such preferred stock, and an eight percent stock dividend for the subsequent three years thereafter, payable in either cash or shares of preferred stock. For the six months ended September 30, 2002 and 2001, the Company has recorded accrued dividends of \$140,000 for the 8% preferred stock dividend and \$175,000 for the 10% preferred stock dividend, respectively, in connection with the issuance of the preferred stock and warrants on April 6, 2001. On April 6, 2001, the Company recorded the initial carrying value of the preferred stock as \$521,848, which included adjustment for the estimated fair value of the initial warrants (\$277,200) and redemption warrants (\$277,200). Each quarter the Company calculates the estimated redemption value based on the formulas stated above and the difference between the initial carrying value and the estimated redemption value is then accreted over the redemption period (48 months beginning April 2001) using the straight line method, which approximates the effective interest method. For the six months ended September 30, 2002 and 2001, the Company recorded \$459,977 and \$667,491, respectively, related to the accretion of the redemption value of preferred stock and the beneficial conversion feature of accrued dividends. As of September 30, 2002, the value of the 72,646 shares of redeemable convertible preferred stock is \$2,301,942.

On September 25, 2001, the Company issued an investor, in accordance with an exemption from registration under Regulation D promulgated under the Securities Act of 1933, as amended, (i) an aggregate of 522,648 shares of common stock, \$0.01 par value, and (ii) warrants to purchase 140,000 shares of common stock, \$0.01 par value, at an aggregate sales price of approximately \$3,000,000. Registration of the shares was completed by October 25, 2001. All 140,000 warrants were exercised in January 2002 at \$4.50 per share for total proceeds of \$630,000.

In conjunction with the Series A Purchase Agreement, the Company agreed that it would not sell or enter into any agreement to sell any of its securities or incur any indebtedness outside the ordinary course of business for the time period beginning April 6, 2001 and continuing until three months after the date the investors' shares were effectively registered ("Anti-Financing Right"). To induce the Series A Preferred Holders to waive their Anti-Financing Right to allow the Company to proceed with transactions contemplated by the September 25, 2001 common stock issuance, the Company issued 30,000 shares of common stock to each of the two Series A Preferred Holders at a per share purchase price of par value (\$.01). The difference between the total purchase price (\$600) and the market value of the stock on the closing date (\$360,000) is considered preferred stock dividends. This dividend amount of \$359,400 is included in the preferred stock dividends amount for the three and six months ended September 30, 2001 and therefore affects the computation of earnings per common share.

In accordance with Regulation D and pursuant to a certain Common Stock and Warrants Purchase Agreement dated June 28, 2002, the Company sold 367,647 shares of Common Stock on June 28, 2002 for \$4.08 (85% of an average market price) and issued warrants to purchase 122,549 shares of Common Stock at a price equal to \$5.52 per share to Stonestreet Limited Partnership. In connection with such sale, the Company issued 7,812 shares of Common Stock to Stonestreet Corporation and 4,687 shares of Common Stock to H&H Securities Limited in exchange for their services as finders. Per the terms of the agreement, the Company received net proceeds of \$930,000, after the repayment of a \$550,000 promissory note dated June 26, 2002 in favor of Excalibur Limited Partnership and payment of \$20,000 for Stonestreet Limited Partnership's costs and expenses related to the purchase of these shares of Common Stock.

In accordance with Section 4(2) of the Securities Act of 1933, as amended, and pursuant to a Food Service Brokerage Agreement dated June 25, 2002, the Company issued 141,221 shares of Common Stock for \$4.08 per share on September 9, 2002 to certain food brokers in consideration for prior services rendered valued at \$576,179.

In accordance with Section 4(2) of the Securities Act of 1933, as amended, and pursuant to a Securities Purchase Agreement dated August 27, 2002, the Company issued 65,404 shares of Common Stock for \$4.08 per share in settlement of an outstanding payable to Hart Design and Manufacturing, Inc. in the amount of \$266,848.

(6) Related Party Transactions

In March 2002, Angelo Morini, the Company’s Chief Executive Officer and President, obtained a personal home equity line of credit and loaned \$330,000 to the Company in order for it to pay down certain notes payable that were coming due. This loan bears interest at prime (4.75% at September 30, 2002) and is due on or before June 15, 2006. On May 24, 2002, in consideration of this personal loan to the Company and his continued guarantee and related pledge of one million of his shares of the Company’s common stock for the loan with SouthTrust Bank, N.A. (See Note 3), the Company granted Mr. Morini stock options to acquire 1,163,898 shares of Common Stock at an exercise price of \$5.72 (110% of market) per share. These options have subsequently been repriced to \$2.05 (See Note 9), and shall expire on May 24, 2012.

On July 1, 2002, in consideration of his guarantee and related pledge on a \$550,000 promissory note with Excalibur Limited Partnership (See Note 3), the Company granted Mr. Morini stock options to acquire 289,940 shares of Common Stock at an exercise price of \$5.17 (110% of market) per share. These options have subsequently been repriced to \$2.05 (See Note 9), and shall expire on July 1, 2007.

(7) Earnings Per Share

The following is a reconciliation of basic net earnings (loss) per share to diluted net earnings (loss) per share:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net income (loss) available to common shareholders	<u>\$ 541,545</u>	<u>\$ (5,893,800)</u>	<u>\$ 1,151,778</u>	<u>\$ (8,460,585)</u>
Weighted average shares outstanding - basic	11,978,691	10,048,447	11,764,984	10,033,874
“In-the-money” shares under stock option agreements	1,420,502	--	1,792,771	--
“In-the-money” shares under stock warrant agreements	245,000	--	335,429	--
Less: Shares assumed repurchased under treasury stock method	<u>(1,544,310)</u>	<u>--</u>	<u>(1,677,333)</u>	<u>--</u>
Weighted average shares outstanding – diluted	<u>12,099,883</u>	<u>10,048,447</u>	<u>12,215,851</u>	<u>10,033,874</u>
Basic net income (loss) per common share	<u>\$ 0.05</u>	<u>\$ (0.59)</u>	<u>\$ 0.10</u>	<u>\$ (0.84)</u>
Diluted net income (loss) per common share	<u>\$ 0.04</u>	<u>\$ (0.59)</u>	<u>\$ 0.09</u>	<u>\$ (0.84)</u>

Potential conversion of Series A preferred stock for 1,359,659 shares, options for 2,872,220 and 2,499,951 shares and warrants for 410,570 and 320,141 shares have not been included in the computation of diluted net income (loss) per common share for the three and six months ended September 30, 2002, respectively, as their effect would be antidilutive. Potential conversion of Series A preferred stock for 710,413 shares, options for 2,781,845 shares, and warrants for 1,031,911 shares have not been included in the computation of diluted net income (loss) per common share for the three and six months ended September 30, 2001, as their effect would be antidilutive.

(8) Supplemental Cash Flow Information

For purposes of the statement of cash flows, all highly liquid investments with a maturity date of three months or less are considered to be cash equivalents.

Six months ended September 30,	2002	2001
Non-cash financing and investing activities:		
Amortization of consulting and directors fees paid through issuance of common stock warrants	\$ 74,650	\$ 8,124
Purchase of equipment through capital lease obligations and term notes payable	94,763	--
Reduction in accounts payable through issuance of notes payable	347,475	--
Reduction in accounts payable through issuance of common stock	843,027	--
Discount related to preferred stock	--	2,020,734
Accrued preferred stock dividends	140,000	175,000
Beneficial conversion feature related to preferred stock dividends	17,844	45,400
Accretion of discount on preferred stock	442,133	622,091
Preferred dividends recorded for preferred shareholder waiver received in exchange for issuance of common stock	--	359,400
Cash paid for:		
Interest	1,317,039	1,203,820
Income taxes	51,037	--

(9) Subsequent Events

On October 11, 2002 through unanimous consent of the Board of Directors, the Company repriced all outstanding options granted to employees prior to this date (4,284,108 shares at former prices ranging from \$2.84 to \$10.28) to the market price of \$2.05 per share. In addition, the Company repriced the outstanding warrants held by current consultants prior to this date (291,429 shares at former prices ranging from \$3.31 to \$5.50) to the market price of \$2.05 per share. This stock option repricing will result in variable accounting treatment for these stock options in future periods. Variable accounting treatment will result in unpredictable stock-based compensation expense or income depending on fluctuations in quoted prices for the Company's common stock. Assuming no options or warrants are exercised or canceled, a \$0.01 increase in the Company's stock price will result in a non-cash compensation expense of approximately \$46,000.

GALAXY NUTRITIONAL FOODS, INC.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Financial Statements and Notes thereto appearing elsewhere in this report. The following discussion contains certain forward-looking statements, within the meaning of the "safe-harbor" provisions of the Private Securities Reform Act of 1995, the attainment of which involves various risks and uncertainties. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by us. Forward-looking statements may be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "anticipate", "continue", or similar terms, variations of these terms or the negative of those terms. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results may differ materially from those described in these forward-looking statements due to among other factors, competition in our product markets, dependence on suppliers, our manufacturing experience, and production delays or inefficiencies. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Galaxy Nutritional Foods, Inc. (the "Company") is principally engaged in developing, manufacturing and marketing a variety of healthy cheese and dairy related products, as well as other cheese alternatives, and is a leading producer of soy-based alternative dairy products. These healthy cheese and dairy related products include low or no fat, low or no cholesterol and lactose-free varieties. These products are sold throughout the United States and internationally to customers in the retail and food service markets. The Company's headquarters and manufacturing facilities are located in Orlando, Florida.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expense during the reporting period. The Company's significant estimates include the allowance for doubtful accounts receivable and valuation of deferred taxes and warrants. Actual results could differ from those estimates.

The Company records revenue upon shipment of products to its customers and there is reasonable assurance of collection on the sale. It provides credit terms to customers usually based on net 30 days. The Company performs ongoing credit evaluations of its accounts receivable and makes reserves for anticipated future credits that will be issued to its customers for promotions, discounts, spoils, etc., based on historical experience. In addition, the Company evaluates the accounts for potential uncollectible amounts. The reserve for accounts receivable is then adjusted to reflect these estimates. At September 30, 2002 and March 31, 2002, the Company had reserved approximately \$815,000 and \$678,000 for known and anticipated future credits and doubtful accounts. During the six months ended September 30, 2002 and 2001, the Company recorded \$158,300 and \$475,000, respectively, of expense related to anticipated future credits and doubtful accounts.

Inventories are valued at the lower of cost (weighted average, which approximates FIFO) or market. The Company reviews its inventory valuation each month and writes down the inventory for potential obsolete and damaged inventory. In addition, the inventory value is reduced to market value when the known sales price is less than the cost of the inventory.

Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Statement of Financial Accounting Standards No. 123 ("FAS 123"), *Accounting for Stock Based Compensation*, requires the Company to report compensation expense on warrants issued to non-employees for services rendered, in accordance with the fair value based method prescribed in FAS 123. The Company estimates the fair value of each warrant based on the expected vesting due to performance requirements set forth in the warrant or service agreement and life of the warrant by using a Black-Scholes option-pricing model with the following assumptions used in the fiscal 2003 option-pricing model: no dividend yield, 37% volatility, risk-free interest rate of 4.06%, and expected lives of five years. Assumptions used for grants in fiscal 2002: no dividend yield, 38% volatility, risk-free interest rate ranging from 4.75%, and expected lives of ten years.

RESULTS OF OPERATIONS

During fiscal year 2000, the Company experienced increasing demand for its products but was unable to fill all of the orders it received due, in part, to a lack of production capacity. During the latter part of fiscal 2001 and the beginning of fiscal 2002, the Company significantly increased its production capacity by purchasing and installing additional production equipment for six new production lines that included two slice lines, a chunk cheese line, a cup line, a string cheese line, and a shred line. This equipment enables the Company to produce new products, improve product quality, and increase the production volume of existing products. The installation of the equipment was delayed significantly due to late shipments by manufacturers and problems configuring the machines to meet the manufacturing needs of our unique line of products, but was completed by September 2001. Because of the delays in the installation of the equipment, the Company experienced excess overhead costs and downtime during the first and second quarters of fiscal 2002, which resulted in increased costs and reduced cash flows for those periods. Additionally, although a substantial portion of the purchase price and installation costs incurred in connection with the new equipment was financed through a loan obtained from SouthTrust Bank, N.A., the Company used nearly all of the excess cash that the Company had at the time to purchase and install the new equipment. As a result of the large cash outlays related to this expansion along with the delays in new product shipment, the Company experienced shortfalls in cash that affected nearly every aspect of its operations in fiscal 2002. In fiscal 2003, the Company has returned to positive cash flow levels through efficiencies in production, purchase discounts and additional cost reductions. All excess cash has been put back into operations to improve the Company's operations and financial position.

Net Sales were \$10,062,331 in the three months ended September 30, 2002, compared to net sales of \$11,225,584 for the three months ended September 30, 2001, a decrease of 10%. The Company experienced an overall decrease of 13% for the first six months of fiscal 2003 compared to the same period in fiscal 2002. Although sales in fiscal 2003 is a decrease from the sales levels in the first half of fiscal 2002, the sales are at the same level (approx. \$10 million) as they were for the fourth quarter ended fiscal 2002. The decrease in fiscal 2003 sales compared to fiscal 2002 is attributed to the significant reduction in cash flows in fiscal 2002 as described above. As a result of the cash shortages and short shipments, the Company made a strategic product mix decision and decided to focus on its higher-margin brand name products under the Veggie brand and turn away certain private label business. While demand for the Company's products and private label business continues to increase, sales growth was maintained at lower levels so that the Company can grow profitably.

Costs of Goods Sold were \$7,047,230 representing 70% of net sales for the three months ended September 30, 2002, compared with \$9,547,698 or 85% of net sales for the same period ended September 30, 2001. These costs represented 71% and 79% of net sales for the six months ended September 2002 and 2001, respectively. There was an overall decrease in costs of \$3,885,900 in the six months of fiscal 2003 compared to fiscal 2002. This decrease in direct materials cost is primarily the result of several factors: (a) a decrease of \$2.4 million in proportion to the decrease in sales, (b) the completed installation of the new equipment in fiscal 2002 resulted in an increase of \$186,000 in depreciation and personal property taxes in the first half of fiscal 2003. However, in response to the additional efficiencies that the new equipment is now providing, the Company substantially decreased the number of production personnel late in fiscal 2002, which caused labor-related expenses to decrease approximately \$886,000 in the first quarter of fiscal 2003, (c) a decrease of \$600,000 in inventory write-offs. In the second quarter of fiscal 2002, the Company changed its production focus by scaling back its product mix to 200 core items that made up nearly 98% of sales. As a result of the change in focus, the Company provided for a \$600,000 reserve for potential obsolete and slow moving inventory; and (d) a decrease of \$200,000 in raw material costs due to improved vendor relations, lower raw material costs and purchase discounts. Now that the equipment is fully operational and the labor crews are trained, the Company is seeing improved run rates with more, high-quality product produced per hour. This resulted in gross margin increasing from the annual rate of 18% in fiscal 2002 to 29% in the first six months of fiscal 2003. The Company expects that with its increased efficiencies in labor, production and purchasing along with tight controls on product mix, it will continue to sustain its improved margins in fiscal 2003.

Selling expenses were \$1,345,678 and \$2,335,315 for the three and six months ended September 30, 2002, respectively, compared with \$1,748,431 and \$3,270,238 for the three and six months ended September 30, 2001, respectively, a decrease of 23% and 29% in the respective periods. The decrease in expenses is due to further reductions in advertising and promotional expenses of approximately \$709,000 in the first six months of fiscal 2003 compared to the same period in fiscal 2002. In 2002, more promotions were directed to provide incentives to our direct customers for brand item purchases. In addition, the Company experienced a decrease (approximately 13%) in brokerage and salary costs proportional to the decrease in net sales and a decrease in travel costs in excess of \$104,000. The Company expects that fiscal 2003 selling expenses will continue to remain at levels below that of fiscal 2002 expenses based on the Company's current plan for advertising and promotional allowances that are granted on volume purchases rather than on individual item discounts.

Delivery expenses were \$511,954 and \$1,083,516 for the three and six months ended September 30, 2002, respectively, compared with \$570,362 and \$1,212,621 for the same periods ended September 30, 2001. Delivery expenses approximate 5% of net sales each period. The decrease in delivery costs is primarily in proportion to the decrease in net sales.

Non-cash compensation related to options and warrants showed an income of \$1,348,089 and \$2,985,350 for the three and six months ended September 30, 2002, respectively, compared to an expense of \$2,051,638 and \$3,629,267 for the three and six months ended September 30, 2001, respectively. The Financial Accounting Standards Board issued Interpretation No. 44 ("FIN 44"), which clarifies the application of APB Opinion 25 relating to the accounting consequences of various modifications to fixed stock options. FIN 44 states that when an option is repriced, it is treated as a variable option and is marked to market each quarter. In accordance with FIN 44, the underlying options related to the \$12,772,200 note receivable from Angelo S. Morini, the Company's Chief Executive Officer and President, are treated as variable due to the nature of the note being a non-interest bearing and non-recourse note. Accordingly, any differences between the exercise price of the options (\$4.38) and the market price of the Company's common stock is recorded as compensation income or expense at each reporting period. During the six months ended September 30, 2002, the market value of the Company's stock decreased from \$5.43 at March 31, 2002 to \$3.14 at September 30, 2002. Therefore, the Company recorded a \$3,060,000 decrease in the compensation related to this decrease in stock value to the floor of \$4.38. Additionally, the Company recorded a \$74,650 expense related to the fair value of warrants issued for consulting services. During the six months ended September 30, 2001, the market value of the Company's stock increased from \$4.76 at March 31, 2001 to \$6.00 at September 30, 2001. Therefore, the Company recorded a \$3,629,267 increase in the compensation related to this increase in stock value. Additionally, the Company recorded an \$8,124 expense related to the fair value of warrants issued for consulting services. Due to the volatility of the market price of the Company's common stock, it is incapable of predicting whether this expense will increase or decrease in the future. A \$0.01 increase or decrease in the Company's common stock price results in an expense or income, respectively, of \$29,143.

On October 11, 2002 through unanimous consent of the Board of Directors, the Company repriced all outstanding options granted to employees prior to this date (4,284,108 shares at former prices ranging from \$2.84 to \$10.28) to the market price of \$2.05 per share. In addition, the Company repriced the outstanding warrants held by current consultants prior to this date (291,429 shares at former prices ranging from \$3.31 to \$5.50) to the market price of \$2.05 per share. This stock option repricing will result in variable accounting treatment for these stock options in future periods. Variable accounting treatment will result in unpredictable stock-based compensation expense or income depending on fluctuations in quoted prices for the Company's common stock. Assuming no options or warrants are exercised or canceled, a \$0.01 increase in the Company's stock price will result in a non-cash compensation expense of approximately \$46,000.

General and administrative expenses were \$747,243 and \$1,588,749 for the three and six months ended September 30, 2002, respectively, compared with \$1,589,994 and \$2,410,541 for the same periods ended September 30, 2001, a 53% and 34% respective decrease. The decrease was primarily due to a decrease in bad debt expense and personnel costs in 2003 along with a general reduction in standard administrative expenses due to cost cutting measures implemented at the end of fiscal 2002.

Research and development expenses were \$56,440 and \$114,214 for the three and six months ended September 30, 2002, respectively, compared with \$44,540 and \$97,856 for the three and six months ended September 30, 2001, respectively, a 27% and 17% respective increase. This increase is primarily the result of a change in the allocation of general overhead costs to this department. The Company expects that these expenses will remain at this level throughout fiscal 2003.

Interest expense increased \$470,990 or 34% in the first six months of fiscal 2003 compared to the first six months of fiscal 2002. This increase was \$279,786 or 41% for the three months ended September 30, 2002 compared to the three months ended September 30, 2001. On September 30, 1999, the Company entered into a \$4,000,000 subordinated note payable with FINOVA Mezzanine Capital, Inc. ("FINOVA Mezzanine"). This debt currently bears interest at a rate of 15.5% and includes an original issuance discount of \$786,900, which is amortized as interest expense over the term of the debt. In connection with FINOVA Mezzanine's warrant exercise and transfer of 815,000 shares of the Company's Common Stock, the Company agreed to guarantee the price at which the shares were sold to the public at \$4.41 per share. The actual price received by FINOVA Mezzanine was \$3.25 per share and the difference of \$945,400 was recorded as a debt discount and is being amortized over the remaining term of the subordinated note. During the six months ended September 30, 2002 and 2001, \$614,230 and \$204,743, respectively, of the total debt discount of \$1,732,300 was amortized to interest expense. This non-cash amortization increased by \$409,487 because the period of this loan was shortened by FINOVA Mezzanine in a waiver issued in November 2001. In addition, the loan fees amortized to interest expense increased approximately \$303,000 during the six months ended September 30, 2002 due to additional loan costs and the shortened loan periods. The increase in the above mentioned amortization was offset by a decrease of approximately \$242,000 in interest expense

as a result of lower debt balances during fiscal 2003 compared to fiscal 2002. See “Debt Financing” below for further detail on the Company’s outstanding debts and interest rates thereon.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities – Net cash from operating activities was \$909,672 for the six months ended September 30, 2002 compared to net cash used of \$635,6514 for the same period ended September 30, 2001. The increase in cash from operations is primarily attributable to a net income of \$1,751,755 reduced by non-cash items of \$698,900 (or \$1,052,855) evidencing the improved gross margins and reduction in cash operating expenditures in fiscal 2003 along with further reductions in inventory levels. In fiscal 2002, the Company used a significant portion of its cash to decrease its amounts payable to vendors and to fund operating losses.

Investing Activities – Net cash used in investing activities totaled \$192,578 for the six months ended September 30, 2002 compared to net cash used of \$373,322 for the same period ended September 30, 2001. The decrease in cash used for investing activities during fiscal 2003 as compared to fiscal 2002 primarily resulted from less purchases of fixed assets during the period.

Financing Activities – Net cash flows used by financing activities were \$715,589 for the six months ended September 30, 2002 compared to cash flows provided by financing activities of \$3,756,394 for the same period ended September 30, 2001. During the first quarter of fiscal 2003, the Company received loan proceeds from Excalibur Limited Partnership in the amount of \$500,000 in cash. The proceeds of which were used to pay down a portion of the Company’s outstanding debt under its term loan from SouthTrust Bank, N.A. In addition, the Company raised \$1,500,000 through the issuance of common stock (as further discussed below). These proceeds were used to pay off its term loan from Excalibur Limited Partnership and for working capital purposes. The Company used its cash from operating activities to reduce the balance of the Company’s outstanding debt under its line of credit from FINOVA Capital. The large cash flows from financing activities during the six months ended September 30, 2001 were primarily the result of the issuance of common and preferred stock. The majority of these proceeds were used to pay down the line of credit from FINOVA Capital and to finance the Company’s operating activities in fiscal 2002.

Debt Financing

As of September 30, 2002, the Company had a line of credit with a maximum principal amount of \$7.5 million from FINOVA Capital Corporation, the proceeds of which are for working capital purposes. The amount that the Company can borrow under the line of credit is based on a formula of up to 80% of eligible accounts receivable plus 50% of eligible inventories not to exceed \$3 million, as defined in the agreement. Pursuant to a certain Amendment and Limited Waiver to Security Agreement dated June 26, 2002, the inventory advance rate decreases by 1% per month beginning July 1, 2002 from a level of 50% at June 30, 2002 to 37% by the maturity date (47% at September 30, 2002). The line of credit is secured by all accounts receivable, inventory, machinery, equipment, trademarks and patents owned by the Company. Interest is payable monthly on the outstanding draws on the line of credit at a rate of prime plus four percent (8.75% at September 30, 2002). The line of credit expires on July 1, 2003, at which time the entire outstanding principal amount of the line of credit, and all accrued but unpaid interest thereon, is due and payable in full. As of September 30, 2002, the Company had an outstanding balance of \$4,899,822 under this line.

On September 30, 1999, the Company obtained a \$4 million subordinated loan from FINOVA Mezzanine to finance additional working capital and capital improvement needs. The Company received loan proceeds in the amount of \$3,620,000 after paying loan costs of \$380,000. Amounts outstanding under the loan are secured by a subordinated lien on substantially all of the Company’s assets. A balloon payment of the entire principal amount of the loan, and all accrued but unpaid interest thereon, is due upon maturity in July 2003. The interest rate applicable to the loan was increased from 11.5% to 13.5% in July 2001. In February 2002, the interest rate increased to 15.5%. In consideration of the loan, the Company issued to FINOVA Mezzanine a warrant to purchase 915,000 shares of our common stock at an exercise price of \$3.41 per share which represented 80% of the fair value of our stock on the date the warrant was issued. The warrant, valued at \$786,900, was recorded as a debt discount was amortized to interest expense from the date of issuance of the note to an original earlier maturity date of the note in October 2002. As of September 30, 2002, the discount has been fully amortized to interest expense and the Company had an outstanding principal balance of \$4,000,000 under this loan.

On December 26, 2000, the FINOVA Mezzanine exercised a portion of the warrant to purchase 815,000 shares of Common Stock at a price of \$3.41 per share. The Company received from the exercise of the warrant net proceeds of \$2,452,329, after paying transaction costs of \$326,822. In connection with this transaction, the Company agreed to reimburse FINOVA Mezzanine for brokerage commission and other expenses incurred by it, in connection with the sale of the 815,000 shares to the public, which were sold at a price of \$3.25 per share. These costs and expenses were recorded as

a reduction in the proceeds received from the exercise of the warrants. In addition, the Company agreed to guarantee the price (\$4.41 per share) at which the shares would be sold to the public. The difference between the actual price received by FINOVA Mezzanine (\$3.25) and the guaranteed price (\$4.41) was \$945,400, which was recorded as a debt discount and is being amortized over the remaining term of the subordinated note. The consideration for the difference between the exercise price of \$3.41 and the guaranteed price of \$4.41 was \$815,000. FINOVA Mezzanine agreed to finance such amount under an additional subordinated term loan which was payable in full on December 29, 2001. However, the Company obtained an extension for a fee of \$55,000 and made payments of \$30,000 per business day through February 28, 2002, at which time the additional loan was paid in full. During the six months ended September 30, 2002 and 2001, \$614,230 and \$204,743, respectively, of the total debt discounts of \$1,732,300 were amortized to interest expense. At September 30, 2002, there were no remaining unamortized debt discounts and the remaining principal balance due on the notes was \$4,000,000.

The line of credit and subordinated loans described above contain certain financial and operating covenants. In June 2002, the Company notified FINOVA Capital and FINOVA Mezzanine that it had failed to comply with the minimum operational cash flow to contractual debt service ratio and the funded debt to EBITDA ratio. FINOVA Capital agreed to waive those violations for the fiscal year ended March 31, 2002 and the fiscal quarter ended June 30, 2002 and to amend such covenants for the fiscal quarters beginning July 1, 2002, pursuant to a certain Amendment and Limited Waiver to Security Agreement dated June 26, 2002. FINOVA Capital extended the maturity date from October 15, 2002 to July 1, 2003, removed any prepayment penalties, reduced the credit line from \$13 million to \$7.5 million, reduced the inventory limit from \$6 million to \$3 million, and will reduce the inventory advance rate by 1% per month beginning July 1, 2002 (from a level of 50% at June 30, 2002 to 37% by the maturity date). FINOVA Mezzanine also agreed to waive the violations of its covenants for the fiscal year ended March 31, 2002 and the fiscal quarter ended June 30, 2002, and to amend those covenants for future fiscal quarters pursuant to a letter agreement dated June 26, 2002 and amendments to the subordinated notes. In consideration of the waivers and covenant amendments, the Company agreed to pay a facility fee of \$413,500, which was deemed fully earned on June 26, 2002. The facility fee is payable as follows: \$172,500 is due and payable on the earliest of (a) July 1, 2003, (b) the occurrence of an event of default, or (c) the date on which the Company repays either all of the obligations to FINOVA Capital under the Loan Agreement or any portion of the principal obligations to FINOVA Mezzanine under the FINOVA Mezzanine loan documents, with the balance of \$241,000 due and payable only upon FINOVA Mezzanine's exercise of its remaining 100,000 warrants. The Company was in compliance with all revised covenants for the quarter ended September 30, 2002.

In March 2000, the Company obtained a \$10 million term loan from SouthTrust Bank, N.A. This note bears interest at prime rate (4.75% at September 30, 2002) and is due in monthly principal installments of \$93,000 plus interest. In a letter agreement dated September 27, 2002, the bank deferred the four principal payments, due in June 2002 through September 2002, until the maturity of the note. The note matures in March 2005. The balance outstanding on this note as of September 30, 2002 was \$8,593,734. This note was used to pay off a prior term loan and to finance approximately \$7.5 million in new equipment purchases to expand our production capacity, including the new production equipment purchased and installed throughout fiscal 2001 and the beginning of fiscal 2002. This term loan is secured by certain machinery and equipment, including the Company's new production equipment.

In October 2000, Angelo S. Morini, the Company's Chief Executive Officer and President, guaranteed a \$1.5 million short-term bridge loan that the Company obtained from SouthTrust Bank, N.A. by pledging one million of his shares of the Company's Common Stock to secure the loan. Interest on this note is at the prime rate (4.75% at March 31, 2002). The loan is being paid down by monthly principal payments of \$50,000 plus interest. In a letter agreement dated September 27, 2002, the bank deferred the four principal payments, due in June 2002 through September 2002, until the maturity of the note. The note matures in October 2003. The balance outstanding on this note as of September 30, 2002 was \$900,000. In consideration of his guarantee and related pledge, the Company granted Mr. Morini stock options to acquire 343,125 shares of Common Stock at an exercise price of \$3.88 per share. These options have subsequently been repriced to \$2.05 (See Note 9), and shall expire on December 15, 2010.

The term loan and the short-term bridge loan from SouthTrust Bank, N.A. contain certain financial and operating covenants. The Company was in violation of all financial covenants at March 31, 2002. On June 27, 2002, the Company received a waiver for the year ended March 31, 2002 and for all future periods through July 1, 2003.

In March 2002, Angelo Morini, the Company's Chief Executive Officer and President, obtained a personal home equity line of credit and loaned \$330,000 to the Company in order for it to pay down certain notes payable that were coming due. This loan bears interest at prime (4.75% at September 30, 2002) and is due on or before June 15, 2006.

On May 24, 2002, in consideration of this personal loan to the Company and his continued guarantee and related pledge of one million of his shares of the Company's common stock for the loan with SouthTrust Bank, N.A. (See Note 3), the Company granted Mr. Morini stock options to acquire 1,163,898 shares of Common Stock at an exercise price of \$5.72 (110% of market) per share. These options have subsequently been repriced to \$2.05 (See Note 9), and shall expire on May 24, 2012.

On June 26, 2002, the Company signed a \$550,000 promissory note with Excalibur Limited Partnership, one of the holders of the Company's Series A Preferred Stock. In consideration of the note, the Company issued Excalibur Limited Partnership a warrant to purchase 30,000 shares of Common Stock, which are exercisable until June 26, 2007 at a price equal to \$5.50 per share. This note was non-interest bearing assuming that it was repaid on or before July 26, 2002. This note was secured by 250,000 shares of Common Stock owned by the Angelo S. Morini, the Company's Chief Executive Officer and President. In consideration of his guarantee and related pledge, the Company granted Mr. Morini stock options to acquire 289,940 shares of Common Stock at an exercise price of \$5.17 (110% of market) per share. These options have subsequently been repriced to \$2.05 (See Note 9), and shall expire on July 1, 2007. On June 26, 2002, the Company received loan proceeds in the amount of \$500,000 in cash. The additional \$50,000 was retained by Excalibur Limited Partnership as payment for consulting fees due to Excalibur Limited Partnership in accordance with a consulting agreement entered into on June 26, 2002, which expires December 31, 2002. This note was paid in full on June 28th from proceeds derived from the issuance of common stock as discussed below.

On August 15, 2002, the Company signed a \$347,475 promissory note with Target Container, Inc. in satisfaction of its accounts payable obligation to this vendor. This note bears interest at 7% per annum and is due in twelve equal monthly installments of \$30,066.

Equity Financing

On April 6, 2001, the Company issued to BH Capital Investments, L.P. and Excalibur Limited Partnership, in accordance with an exemption from registration under Regulation D promulgated under the Securities Act of 1933, as amended ("Regulation D"), (i) an aggregate of 72,646 shares of the Company's Series A convertible preferred stock, \$0.01 par value (the "Series A Preferred Stock"), and (ii) warrants to purchase shares of the Common Stock, at an aggregate sales price of approximately \$3,082,000. The Series A Preferred Stock is subject to certain designations, preferences and rights set forth in our Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock, including the right to convert such shares into shares of Common Stock at any time, at a current conversion rate (subject to appropriate adjustment for stock splits, stock dividends, recapitalizations and other events) equal to the quotient of:

- \$48.18, plus all accrued dividends that are then unpaid for each share of Series A Preferred Stock then held by the holder,

divided by,

- the lesser of (x) \$4.08 or (y) 95% of the average of the two lowest closing bid prices on the American Stock Exchange of the Common Stock out of the fifteen trading days immediately prior to conversion; provided that, in certain circumstances, such amount may not fall below \$3.10.

In no case, however, shall any holder of Series A Preferred Stock be permitted to convert Series A Preferred Stock in an amount that would cause such holder to beneficially own, in the aggregate, such number of shares of Common Stock which would exceed 9.99% of the aggregate outstanding shares of Common Stock.

In connection with the issuance of the Series A Preferred Stock, the Company also granted to BH Capital Investments, L.P. and Excalibur Limited Partnership warrants to purchase an aggregate of 120,000 shares of common stock. The initial warrants were exercisable for a period of five years from April 6, 2001, at a per share exercise price of \$5.30. Pursuant to a letter agreement dated October 5, 2001, the Company agreed to issue additional warrants to acquire 60,000 shares of its Common Stock at an exercise price of \$5.86 per share to each of BH Capital Investments, L.P. and Excalibur Limited Partnership. In exchange for the warrants, BH Capital Investments, L.P. and Excalibur Limited Partnership agreed to provide us certain consulting services, including the introduction of potential customers in Canada. Subsequently, the

Company agreed to reduce the per share exercise price on all the warrants to \$2.67 in order to induce BH Capital Investments, L.P. and Excalibur Limited Partnership to exercise their warrants and to gain their required approval for a private placement. On January 17, 2002, BH Capital Investments, L.P. and Excalibur Limited Partnership exercised all 240,000 for a total of \$640,800.

In accordance with Regulation D and pursuant to a Securities Purchase Agreement dated as of September 24, 2001, Hare & Co. f/b/o John Hancock Small Cap Value Fund, an affiliate of John Hancock Advisors, Inc., purchased 522,648 shares of Common Stock and warrants to purchase 140,000 shares of Common Stock, at an aggregate sales price of \$3,000,000. The warrants held by Hare & Co. f/b/o John Hancock Small Cap Value Fund were exercisable at a price per share equal to \$6.74 until September 25, 2006. Subsequently, the Company agreed to reduce the per share exercise price on all the warrants to \$4.50 in order to induce Hare & Co. f/b/o John Hancock Small Cap Value Fund to exercise their warrants. All of the warrants were exercised in January 2002 at a price of \$4.50 per share for a total of \$630,000.

In accordance with Regulation D and pursuant to certain Securities Purchase Agreements dated January 17, 2002 with FNY Millenium Partners, LP, Millenium Global Offshore Ltd., Potomac Capital Partners, LP, and Potomac Capital International Ltd., the Company sold 158,095 shares of Common Stock for \$4.74 (95% of an average market price) and issued warrants to purchase 39,524 shares of Common Stock at a price equal to \$5.74 per share. Pursuant to the same Securities Purchase Agreements dated January 17, 2002, the Company sold 12,270 shares of Common Stock for \$4.74 (95% of an average market price) and issued warrants to purchase 3,068 shares of Common Stock at a price equal to \$5.74 per share to its officers Angelo S. Morini, Christopher New, LeAnn Hitchcock and Kulbir Sabharwal. All of the warrants are exercisable until January 17, 2007. The Company received total proceeds of \$808,212 related to the sale of these shares of Common Stock.

In accordance with Regulation D and pursuant to a certain Common Stock and Warrants Purchase Agreement dated June 28, 2002, the Company sold 367,647 shares of Common Stock for \$4.08 (85% of an average market price) and issued warrants to purchase 122,549 shares of Common Stock at a price equal to \$5.52 per share to Stonestreet Limited Partnership. In connection with such sale, the Company issued 7,812 shares of Common Stock to Stonestreet Corporation and 4,687 shares of Common Stock to H&H Securities Limited in exchange for their services as finders. Per the terms of the agreement, the Company received net proceeds of \$930,000, after the repayment of a \$550,000 promissory note dated June 26, 2002 in favor of Excalibur Limited Partnership and payment of \$20,000 for Stonestreet Limited Partnership's costs and expenses related to the purchase of these shares of Common Stock.

In accordance with Section 4(2) of the Securities Act of 1933, as amended, and pursuant to a Food Service Brokerage Agreement dated June 25, 2002, the Company issued 141,221 shares of Common Stock for \$4.08 per share on September 9, 2002 to certain food brokers in consideration for prior services rendered valued at \$576,179.

In accordance with Section 4(2) of the Securities Act of 1933, as amended, and pursuant to a Securities Purchase Agreement dated August 27, 2002, the Company issued 65,404 shares of Common Stock for \$4.08 per share in settlement of an outstanding payable to Hart Design and Manufacturing, Inc. in the amount of \$266,848.

Management believes that with the proceeds received in connection with its credit facilities and equity financings together with cash flow from current operations, the Company will have enough cash to meet its fiscal 2003 liquidity needs based on current operation levels. However, substantial additional financing is necessary to meet the demands of expected future higher sales volumes and to refinance the FINOVA Capital and FINOVA Mezzanine loans that will mature in July 2003. The Company is currently conducting negotiations and is in the final approval phase with a potential new third party lender that would replace FINOVA Capital as our primary asset-based lender. In the event that FINOVA is not replaced before the quarter ended December 31, 2002, the Company believes that it will remain in compliance with the new FINOVA loan covenants established in the June 26, 2002 waiver and amendment documents.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

The interest on the Company's debt to FINOVA Capital Corporation and SouthTrust Bank N.A. is floating and based on the prevailing market interest rates. For market-based debt, interest rate changes generally do not affect the market value of the debt but do impact future interest expense and hence earnings and cash flows, assuming other factors remain unchanged. A theoretical 1% change in market rates in effect on September 30, 2002 with respect to the Company's anticipated debt as of such date would increase interest expense and hence reduce net income of the Company by approximately \$36,000 per quarter.

The Company's fiscal 2002 and 2001 sales denominated in a currency other than U.S. dollars were less than 5% of total sales and no net assets were maintained in a functional currency other than U. S. dollars at September 30, 2002 and 2001. The effects of changes in foreign currency exchange rates has not historically been significant to the Company's operations or net assets.

ITEM 4. Controls and Procedures

Within ninety (90) days prior to the filing of this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures to insure that the Company records, processes, summarizes and reports in a timely and effective manner the information required to be disclosed in reports filed with or submitted to the Securities and Exchange Commission. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective in timely bringing to their attention material information related to the Company required to be included in the Company's periodic Securities and Exchange Commission filings. Since the date of this evaluation, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect those controls.

PART II. OTHER INFORMATION
GALAXY NUTRITIONAL FOODS, INC.

ITEM 1. Legal Proceedings

On May 17, 2002, Schreiber Foods, Inc. of Green Bay Wisconsin filed a lawsuit against the Company in the federal district court for the Eastern District of Wisconsin (“Wisconsin lawsuit”), being Case No. 02-C-0498, alleging various acts of patent infringement. The Complaint alleges that the Company’s machines for wrapping of individual cheese slices, manufactured by Kustner Industries, S.A. of Switzerland, known as models KE and KD, and the Company’s machines for producing individually wrapped slices manufactured by Hart Design Mfg., Inc. of Green Bay, Wisconsin, infringe unspecified claims of U.S. Patents Nos. 5,440,860, 5,701,724 and 6,085,680. Additionally, the Complaint refers to U.S. Patent No. 5,112,632, but it does not explicitly allege infringement of that patent. Because the case is in the earliest stages, there has not yet been an opportunity to determine whether Schreiber Foods intends to pursue allegations of infringement of the 5,112,632 Patent against the Company. Schreiber Foods is seeking a preliminary and permanent injunction prohibiting the Company from further infringing acts and is also seeking damages in the nature of either lost profits or reasonable royalties. On or about July 10, 2002, the Company filed a Motion to Dismiss the Wisconsin lawsuit on the grounds that Schreiber Technologies, Inc., not Schreiber Foods, is the owner of the asserted patents. Also on July 10, 2002, the Company filed a Declaratory Judgment action against Schreiber Technologies, Inc. in the federal court for the Middle District of Florida, being case No. 02-CV-784, seeking a declaration that the Company does not infringe these patents and/or that the patents are invalid and unenforceable. Schreiber Foods has opposed the Motion to Dismiss claiming that it reacquired ownership of the patents. Schreiber Technologies has moved to dismiss the Florida action claiming that it does not own the patents.

The '860 and '724 Patents--and the Kustner machines for producing individually wrapped slices--were the subject of a lawsuit commenced by Schreiber in 1997 against Beatrice Foods and others in the Eastern District of Wisconsin, being Case No. 97-CV-11. Schreiber alleges that the machines that were at issue in that case are similar to the Kustner machines in use by the Company. In the 1997 lawsuit, the matter was tried to a jury, which found the Kustner machines to infringe and awarded Schreiber \$26 million in a verdict of August 25, 1998. On March 30, 2000, however, the judge reversed that verdict, entered a finding of no infringement on the part of Beatrice, and dismissed the case. Schreiber appealed that order to the Court of Appeals for the Federal Circuit, which entered its judgment on appeal on February 27, 2002. The appeals court reversed the action of the trial court, found that substantial evidence supported the jury's finding of infringement, and ordered the jury verdict reinstated. Kustner Industries has informed the Company that a petition for certiorari is currently before the Supreme Court and that it is considering additional judicial options. Schreiber has also commenced a similar action against Borden, Inc., and others, in March 2002, but no result has yet been reached in that case.

Several years prior to the filing of the lawsuit against the Company, the Company modified the seals on its Kustner machines to make them more technologically safe and superior. The seals on the two Hart Design machines were modified by the manufacturer from the standard Hart Design configuration at Galaxy’s request and were delivered to the Company as modified.

The Company believes that these modifications are such that the modified machines do not literally infringe upon any of the identified patents, and the Company will vigorously defend this position. However, a formal opinion from patent counsel has not yet been obtained to that regard, given the recent filing date of the lawsuit. Therefore, the Company is not in a position at this time to express a view on the likelihood that it will succeed in its position, nor in the amount of damages that might be awarded against it should it be unsuccessful in that regard.

ITEM 2. Changes in Securities and Use of Proceeds

In accordance with Regulation D and pursuant to a certain Common Stock and Warrants Purchase Agreement dated June 28, 2002, the Company sold 367,647 shares of Common Stock for \$4.08 (85% of an average market price) and issued warrants to purchase 122,549 shares of Common Stock at a price equal to \$5.52 per share to Stonestreet Limited Partnership. In connection with such sale, the Company issued 7,812 shares of Common Stock to Stonestreet Corporation and 4,687 shares of Common Stock to H&H Securities Limited in exchange for their services as finders. Registration of all of these shares, including the shares underlying the warrants, is to be completed within 120 days of issuance. Per the terms of the agreement, the Company received net proceeds of \$930,000, after the repayment of a \$550,000 promissory note dated June 26, 2002 in favor of Excalibur Limited Partnership and payment of \$20,000 for Stonestreet Limited

Partnership's costs and expenses related to the purchase of these shares of Common Stock. The Company used the \$930,000 in net proceeds to pay \$13,000 for its own legal fees related to the financing and the remainder for working capital purposes.

In accordance with Section 4(2) of the Securities Act of 1933, as amended, and pursuant to a Food Service Brokerage Agreement dated June 25, 2002, the Company issued 141,221 shares of Common Stock for \$4.08 per share on September 9, 2002 to certain food brokers in consideration for prior services rendered valued at \$576,179.

In accordance with Section 4(2) of the Securities Act of 1933, as amended, and pursuant to a Securities Purchase Agreement dated August 27, 2002, the Company issued 65,404 shares of Common Stock for \$4.08 per share in settlement of an outstanding payable to Hart Design and Manufacturing, Inc. in the amount of \$266,848.

ITEM 3. Defaults Upon Senior Securities

In June 2002, the Company notified FINOVA Capital and FINOVA Mezzanine that it had failed to comply with the minimum operational cash flow to contractual debt service ratio and the funded debt to EBITDA ratio. FINOVA Capital agreed to waive those violations for the fiscal year ended March 31, 2002 and the fiscal quarter ended June 30, 2002 and to amend such covenants for the fiscal quarters beginning July 1, 2002, pursuant to a certain Amendment and Limited Waiver to Security Agreement dated June 26, 2002. FINOVA Capital extended the maturity date from October 15, 2002 to July 1, 2003, removed any prepayment penalties, reduced the credit line from \$13 million to \$7.5 million, reduced the inventory limit from \$6 million to \$3 million, and will reduce the inventory advance rate by 1% per month beginning July 1, 2002 (from a level of 50% at June 30, 2002 to 37% by the maturity date). FINOVA Mezzanine also agreed to waive the violations of its covenants for the fiscal year ended March 31, 2002 and the fiscal quarter ended June 30, 2002, and to amend those covenants for future fiscal quarters pursuant to a letter agreement dated June 26, 2002 and amendments to the subordinated notes. In consideration of the waivers and covenant amendments, the Company agreed to pay a facility fee of \$413,500, which was deemed fully earned on June 26, 2002. The facility fee is payable as follows: \$172,500 is due and payable on the earliest of (a) July 1, 2003, (b) the occurrence of an event of default, or (c) the date on which the Company repays either all of the obligations to FINOVA Capital under the Loan Agreement or any portion of the principal obligations to FINOVA Mezzanine under the FINOVA Mezzanine loan documents, with the balance of \$241,000 due and payable only upon FINOVA Mezzanine's exercise of its remaining 100,000 warrants. The Company was in compliance with all revised covenants for the quarter ended September 30, 2002.

ITEM 4. Submission of Matters to a Vote of Security Holders

NONE

ITEM 5. Other Information

NONE

ITEM 6. Exhibits and Reports on Form 8-K

The following exhibits are filed as part of this Form 10-Q/A.

<u>Exhibit No</u>	<u>Exhibit Description</u>
*3.1	Certificate of Incorporation of the Company, as amended (Filed as Exhibit 3.1 to the Company's Registration Statement on Form S-18, No. 33-15893-NY, incorporated herein by reference.)
*3.2	Amendment to Certificate of Incorporation of the Company, filed on February 24, 1992 (Filed as Exhibit 4(b) to the Company's Registration Statement on Form S-8, No. 33-46167, incorporated herein by reference.)
*3.3	By-laws of the Company, as amended (Filed as Exhibit 3.2 to the Company's Registration Statement on Form S-18, No. 33-15893-NY, incorporated herein by reference.)
*3.4	Amendment to Certificate of Incorporation of the Company, filed on January 19, 1994 (Filed as Exhibit 3.4 to the Company's Registration Statement on Form SB-2, No. 33-80418, and incorporated herein by reference.)
*3.5	Amendment to Certificate of Incorporation of the Company, filed on July 11, 1995 (Filed as Exhibit 3.5 on Form 10-KSB for fiscal year ended March 31, 1996, and incorporated herein by reference.)
*3.6	Amendment to Certificate of Incorporation of the Company, filed on January 31, 1996 (Filed as Exhibit 3.6 on Form 10-KSB for fiscal year ended March 31, 1996, and incorporated herein by reference.)
*3.7	Amendment to Certificate of Incorporation of the Company, filed on November 16, 2000, effective November 17, 2000 (Filed as Exhibit 3.1 to Registration Statement on Form S-3 filed November 28, 2000, and incorporated herein by reference.)
*3.8	Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock filed on April 5, 2001 (Filed as Exhibit 3.8 on Form 10-K/A for fiscal year ended March 31, 2001, and incorporated herein by reference.)
*4.3	Stock Purchase Warrant issued to Excalibur Limited Partnership dated as of June 26, 2002. (Filed as Exhibit 4.3 to Registration Statement on Form S-3 filed September 30, 2002.)
*4.4	Registration Rights Agreement dated as of June 28, 2002 by and among the Registrant, Stonestreet Limited Partnership, Excalibur Limited Partnership, H&H Securities Limited and Stonestreet Corporation. (Filed as Exhibit 4.4 to Registration Statement on Form S-3 filed September 30, 2002.)
*4.5	Purchase Agreement dated as of August 27, 2002 by and between the Registrant and Hart Design & Mfg, Inc. (Filed as Exhibit 4.5 to Registration Statement on Form S-3 filed September 30, 2002.)
*4.6	Form of Subscription Agreement by and between the Registrant and those food brokers named in the selling stockholders section of this Registration Statement. (Filed as Exhibit 4.6 to Registration Statement on Form S-3 filed September 30, 2002.)
* 4.8	Common Stock and Warrants Purchase Agreement by and between the Company and Stonestreet Limited Partnership dated June 28, 2002 (Filed as Exhibit 4.8 on Form 10-K for fiscal year ended March 31, 2002, and incorporated herein by reference.)
* 4.9	Stock Purchase Warrant issued to Stonestreet Limited Partnership, dated June 28, 2002 (Filed as Exhibit 4.9 on Form 10-K for fiscal year ended March 31, 2002, and incorporated herein by reference.)
*10.1	Second Amendment to the Security Agreement with Finova Financial Services dated June 1998 (Filed as Exhibit 10.1 on Form 10-K for fiscal year ended March 31, 1999, and incorporated herein by reference.)

- *10.2 Third Amendment to the Security Agreement with Finova Financial Services dated December 1998 (Filed as Exhibit 10.2 on Form 10-K for fiscal year ended March 31, 1999, and incorporated herein by reference.)
- *10.3 Term Loan Agreement with Southtrust Bank dated March 2000 (Filed as Exhibit 10.3 on Form 10-K/A for fiscal year ended March 31, 2000, and incorporated herein by reference.)
- *10.4 Cabot Industrial Properties L.P. Lease dated July 1999 (Filed as Exhibit 10.4 on Form 10-K/A for fiscal year ended March 31, 2000, and incorporated herein by reference.)
- *10.6 Third Amendment to Lease Agreement, dated as of August 14, 2001, by and between Anco Company and the Company (Filed as Exhibit 10.6 on Form 10-K/A for fiscal year ended March 31, 2001, and incorporated herein by reference.)
- *10.7 Amendment and Limited Waiver to Security Agreement, dated as of July 13, 2001, by and between the Company and FINOVA Capital Corporation (Filed as Exhibit 10.7 on Form 10-Q/A for the quarter ended September 30, 2001, and incorporated herein by reference.)
- *10.8 Waiver Letter from FINOVA Mezzanine Capital, Inc. to the Company dated as of July 12, 2001 (Filed as Exhibit 10.8 on Form 10-Q/A for the quarter ended September 30, 2001, and incorporated herein by reference.)
- *10.9 Amended and Restated Secured Promissory Note in the principal amount of \$815,000, dated as of July 13, 2001, by the Company in favor of FINOVA Mezzanine Capital, Inc. (Filed as Exhibit 10.9 on Form 10-Q/A for the quarter ended September 30, 2001, and incorporated herein by reference.)
- *10.10 Second Amended and Restated Secured Promissory Note in the principal amount of \$4,000,000, dated as of July 13, 2001, by the Company in favor of FINOVA Mezzanine Capital, Inc. (Filed as Exhibit 10.10 on Form 10-Q/A for the quarter ended September 30, 2001, and incorporated herein by reference.)
- *10.11 Amendment and Limited Waiver to Security Agreement, dated as of November 14, 2001, by and between the Company and FINOVA Capital Corporation (Filed as Exhibit 10.11 on Form 10-Q/A for the quarter ended September 30, 2001, and incorporated herein by reference.)
- *10.12 Intellectual Property Security Agreement, dated as of November 14, 2001, by and between the Company and FINOVA Capital Corporation (Filed as Exhibit 10.12 on Form 10-Q/A for the quarter ended September 30, 2001, and incorporated herein by reference.)
- *10.13 Waiver Letter from FINOVA Mezzanine Capital, Inc. to the Company dated as of November 14, 2001 (Filed as Exhibit 10.13 on Form 10-Q/A for the quarter ended September 30, 2001, and incorporated herein by reference.)
- *10.14 Allonge to Second Amended and Restated Secured Promissory Note, dated as of November 14, 2001, by the Company in favor of FINOVA Mezzanine Capital, Inc. (Filed as Exhibit 10.14 on Form 10-Q/A for the quarter ended September 30, 2001, and incorporated herein by reference.)
- *10.15 Amendment and Limited Waiver to Security Agreement, dated as of February 13, 2002, by and between the Company and FINOVA Capital Corporation (Filed as Exhibit 10.15 of Form 10-Q for the quarter ended December 31, 2001, and incorporated herein by reference.)
- *10.16 Waiver Letter from FINOVA Mezzanine Capital, Inc. to the Company dated as of February 13, 2002 (Filed as Exhibit 10.16 of Form 10-Q for the quarter ended December 31, 2001, and incorporated herein by reference.)
- *10.17 Allonge to Second Amended and Restated Secured Promissory Note dated as of February 13, 2002, by the Company in favor of FINOVA Mezzanine Capital, Inc. (Filed as Exhibit 10.17 of Form 10-Q for the quarter ended December 31, 2001, and incorporated herein by reference.)

- *10.18 Amendment and Limited Waiver to Security Agreement, dated as of June 26, 2002, by and between the Company and FINOVA Capital Corporation (Filed as Exhibit 10.18 on Form 10-K for fiscal year ended March 31, 2002, and incorporated herein by reference.)
- *10.19 Amendment and Limited Waiver to Loan Agreement dated as of June 26, 2002, by and between the Company and FINOVA Mezzanine Capital, Inc. (Filed as Exhibit 10.19 on Form 10-K for fiscal year ended March 31, 2002, and incorporated herein by reference.)
- *10.20 Allonge to Second Amended and Restated Secured Promissory Note dated as of June 26, 2002, by the Company in favor of FINOVA Mezzanine (Filed as Exhibit 10.20 on Form 10-K for fiscal year ended March 31, 2002, and incorporated herein by reference.)
- *10.25 Letter from SouthTrust Bank, N.A. dated September 27, 2002 regarding principal deferment on \$10,000,000 Promissory Note (Filed as Exhibit 10.25 on Form 10-Q for the fiscal quarter ended September 30, 2002, and incorporated herein by reference.)
- *10.26 Letter from SouthTrust Bank, N.A. dated September 27, 2002 regarding principal deferment on \$1,500,000 Promissory Note (Filed as Exhibit 10.26 on Form 10-Q for the fiscal quarter ended September 30, 2002, and incorporated herein by reference..)
- *10.30 Promissory Note payable to Angelo S. Morini dated March 28, 2002 (Filed as Exhibit 10.30 on Form 10-Q for the fiscal quarter ended September 30, 2002, and incorporated herein by reference.)
- *10.31 Promissory Note payable to Target Container, Inc. dated August 15, 2002 (Filed as Exhibit 10.31 on Form 10-Q for the fiscal quarter ended September 30, 2002, and incorporated herein by reference.)
- *10.40 Non-qualified stock option agreement between the Company and Angelo S. Morini dated May 24, 2002 (Filed as Exhibit 10.40 on Form 10-Q for the fiscal quarter ended June 30, 2002, and incorporated herein by reference.)
- *10.41 Stock purchase warrant issued to Douglas Walsh dated June 11, 2002 (Filed as Exhibit 10.41 on Form 10-Q for the fiscal quarter ended June 30, 2002, and incorporated herein by reference.)
- *10.42 Incentive stock option agreement between the Company and Salvatore J. Furnari dated July 8, 2002 (Filed as Exhibit 10.42 on Form 10-Q for the fiscal quarter ended June 30, 2002, and incorporated herein by reference.)
- *10.43 Non-qualified stock option agreement between the Company and Angelo S. Morini dated July 1, 2002 (Filed as Exhibit 10.43 on Form 10-Q for the fiscal quarter ended June 30, 2002, and incorporated herein by reference.)
- 99.1 Certification of the Company's Chief Executive Officer dated July 16, 2003 (*Filed herewith.*)
- 99.2 Certification of the Company's Chief Financial Officer dated July 16, 2003 (*Filed herewith.*)
- * Previously Filed

Reports on Form 8-K

There was one report on Form 8-K dated July 8, 2002 whereby the Company disclosed that LeAnn Hitchcock changed her position with the Company from Chief Financial Officer to SEC Compliance and Auditing Manager. Salvatore Furnari, the Company's Controller, then assumed the role and responsibilities of the Company's Chief Financial Officer. There were no other reports on Form 8-k filed during the three months ended September 30, 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GALAXY NUTRITIONAL FOODS, INC.

Date: July 16, 2003

Christopher J. New
Chief Executive Officer
(Principal Executive Officer)

Date: July 16, 2003

Salvatore J. Furnari
Chief Financial Officer
(Principal Accounting and Financial Officer)

I, Christopher J. New, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Galaxy Nutritional Foods, Inc. (“the registrant”);
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation to the registrant’s auditors and the audit committee of registrant’s board of directors:
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors and material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and
6. The registrant’s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Christopher J. New
Chief Executive Officer
July 16, 2003

I, Salvatore J. Furnari, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Galaxy Nutritional Foods, Inc. (“the registrant”);
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation to the registrant’s auditors and the audit committee of registrant’s board of directors:
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors and material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and
6. The registrant’s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Salvatore J. Furnari
Chief Financial Officer
July 16, 2003