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GRISTEDES FOODS INC
Form 10-Q
April 21, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 2, 2003

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-7013

GRISTEDE'S FOODS, INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

(State or Other Jurisdiction of
Incorporation or Organization)

13-1829183

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

823 Eleventh Avenue, New York, New York 10019
(Address of Principal Executive Offices)

(212) 956-5803

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15 (d) of the Securities Exchange Act 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 X

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At April 18, 2003, registrant had issued and outstanding 19,636,574 shares of common stock.

GRISTEDE'S FOODS, INC. AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheets as of March 2, 2003 and December 1, 2002	Page 3
Consolidated Statements of Operations for the 13 weeks ended March 2, 2003 and March 3, 2002	Page 4
Consolidated Statements of Stockholders' Equity for the 52 weeks ended December 1, 2002 and the 13 weeks ended March 2, 2003	Page 5
Consolidated Statements of Cash Flows for the 13 weeks ended March 2, 2003 and March 3, 2002	Page 6
Notes to Consolidated Financial Statements	Page 7

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	Page 11
--	---------

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	Page 16
---	---------

ITEM 4. CONTROLS AND PROCEDURES	Page 16
---------------------------------	---------

PART II - OTHER INFORMATION	Page 17
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2

ITEM 1

FINANCIAL STATEMENTS

GRISTEDE'S FOODS, INC. CONSOLIDATED BALANCE SHEETS

ASSETS	(Unaudited) March 2, 2003	Dec
	-----	-----
CURRENT ASSETS:		
Cash	\$ 616,428	\$
Accounts receivable - net of allowance for doubtful accounts of \$498,000 at March 2, 2003 and \$481,000 at December 1, 2002	7,917,422	7
Inventories	39,414,400	37
Due from related parties - trade	225,000	
Prepaid expenses and other current assets	2,073,035	2

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Total current assets	50,246,285	48
PROPERTY AND EQUIPMENT:		
Furniture, fixtures and equipment	20,668,176	20
Capitalized equipment leases	35,440,435	34
Leaseholds and leasehold improvements	61,037,241	59
	117,145,852	113
Less accumulated depreciation and amortization	50,564,903	48
Net property and equipment	66,580,949	65
Deposits and other assets	1,133,813	1
Due from related party - trade	1,414,436	1
Other assets	3,796,900	4
TOTAL	\$123,172,383	\$120
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable, trade	\$ 36,261,359	\$ 33
Accrued payroll, vacation and withholdings	3,438,319	3
Accrued expenses and other current liabilities	2,391,214	2
Due to affiliates - trade	217,417	
Capitalized lease obligations - current portion	5,589,569	4
Current portion of long term debt	2,575,740	2
Total current liabilities	50,473,618	46
Long-term debt - noncurrent portion	27,699,802	28
Due to affiliates	16,188,447	14
Capitalized lease obligations - noncurrent portion	14,194,454	14
Deferred rent	5,332,704	5
Total liabilities	113,889,025	109
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$50 Par, -shares authorized 500,000; none issued	--	--
Common stock, \$0.02 par value - shares authorized 25,000,000; outstanding 19,636,574 shares at March 2, 2003 and December 1, 2002	392,732	
Additional paid-in capital	14,136,674	14
Retained earnings/ (deficit)	(5,246,048)	(3)
Total stockholders' equity	9,283,358	10
TOTAL	\$123,172,383	\$120

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See notes to consolidated financial statements (unaudited).

3

GRISTEDE'S FOODS, INC.
 UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
 FOR THE 13 WEEKS ENDED MARCH 2, 2003 AND MARCH 3, 2002

	13 weeks ended March 2, 2003	13 weeks ended March 3, 2002
	-----	-----
Sales	\$74,594,759	\$59,790,660
Cost of sales	45,435,373	36,029,545
	-----	-----
Gross profit	29,159,386	23,761,115
Store operating, general and administrative expenses	24,331,332	18,140,022
Pre-store opening startup costs	235,007	--
Depreciation and amortization	2,380,026	1,908,654
Insurance proceeds - terrorist attack	--	(100,000)
Non-store operating expenses:		
Administrative payroll and fringes	2,006,665	1,626,469
General office expense	583,053	511,089
Professional fees	105,519	124,807
Corporate expense	59,108	55,174
	-----	-----
Total non-store operating expenses	2,754,345	2,317,539
	-----	-----
Operating income (loss)	(541,324)	1,494,900
	-----	-----
Other income (expense):		
Interest expense	(842,649)	(711,829)
Interest income	1,237	2,914
Other income	--	--
	-----	-----
Total other income (expense) - net	(841,412)	(708,915)
	-----	-----
Income (loss) before income taxes	(1,382,736)	785,985
Provision for income taxes	--	25,000

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Net income (loss)	\$ (1,382,736)	\$ 760,985
Net income (loss) per share; basic and diluted	(\$0.07)	\$ 0.04
Weighted average number of shares and equivalents outstanding	19,636,574	19,636,574

See notes to consolidated financial statements (unaudited).

4

GRISTEDE'S FOODS, INC.
 UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 FOR THE 52 WEEKS ENDED DECEMBER 1, 2002
 AND FOR THE 13 WEEKS ENDED MARCH 2, 2003

	Common stock Shares	Common stock Amount	Additional Paid-In Capital	Retained earnings (deficit)	Total Stockholder Equity
Balance at December 2, 2001	19,636,574	\$ 392,732	\$14,136,674	\$ (2,936,905)	\$11,592,500
Net loss for the 52 weeks ended December 1, 2002				(926,407)	(926,407)
Balance at December 1, 2002	19,636,574	\$ 392,732	\$14,136,674	\$ (3,863,312)	\$10,666,090
Net loss for the 13 weeks ended March 2, 2003				(1,382,736)	(1,382,736)
Balance at March 2, 2003	19,636,574	\$ 392,732	\$14,136,674	\$ (5,246,048)	\$ 9,283,350

See notes to consolidated financial statements (unaudited).

5

GRISTEDE'S FOODS, INC.
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE 13 WEEKS ENDED MARCH 2, 2003 AND MARCH 3, 2002

13 weeks ended March 2, 2003	13 weeks ended March 3, 2002
---------------------------------------	---------------------------------------

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Cash flows from operating activities:		
Net income (loss)	\$ (1,382,736)	\$ 760,985
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,380,026	1,908,653
Change in allowance for bad debts	17,483	28,405
Changes in operating assets and liabilities:		
Accounts receivable	(275,353)	(308,586)
Inventories	(1,813,229)	(192,227)
Due to/from related parties - trade	(344,266)	(152,790)
Prepaid expenses and other current assets	752,949	605,035
Other assets	(56,486)	(110,200)
Accounts payable, trade	2,822,397	(3,054,371)
Accrued payroll, vacation and withholdings	260,385	(112,182)
Accrued expenses and other current liabilities	47,560	(45,229)
Deferred rent	276,457	180,396

Net cash provided by (used in) operating activities	2,685,187	(492,111)

Cash flows from investing activities:		
Capital expenditures	(2,223,162)	(1,308,697)

Net cash used in investing activities	(2,223,162)	(1,308,697)

Cash flows from financing activities:		
Repayments of bank loan	(575,000)	(230,769)
Proceeds from bank loans	--	2,900,000
Repayment of capitalized lease obligations	(1,192,965)	(952,321)
Advances from affiliates	1,346,010	158,903

Net cash provided by (used in) financing activities	(421,955)	1,875,813

Net increase in cash	40,070	75,005
Cash, beginning of period	576,358	475,873

Cash, end of period	\$ 616,428	\$ 550,878
=====		
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 870,628	\$ 916,782
Cash paid (refunded) for taxes	\$ 23,590	\$ (46,481)
Supplemental schedule of non cash financing activity:		
Assets acquired under capitalized lease obligations	\$ 1,139,630	\$ --

See notes to consolidated financial statements (unaudited).

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6

GRISTEDE'S FOODS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business -

The Company's corporate predecessor was originally incorporated in 1956 in New York under the name Designcraft Industries, Inc., and was engaged in the jewelry business until 1992, when the Company commenced its supermarket operations. The Company became a public company in 1968, listed its common stock on the American Stock Exchange in 1972, and reincorporated in Delaware in 1985. The Company changed its name to Sloan's Supermarkets, Inc. in September 1993 and to Gristede's Sloans, Inc. in November 1997. The Company changed its name to Gristede's Foods, Inc. in August 1999 to reflect its strategy of changing its "Sloan's" banner locations to "Gristede's" subsequent to a store remodeling.

On November 10, 1997, 29 supermarkets and a wholesale warehouse / distribution business (collectively the "Food Group") that were owned by John A. Catsimatidis, the Company's majority stockholder, Chairman of the Board and CEO were merged into the Company's existing 15 supermarkets. The transaction was accounted for as an acquisition of the Company by the Food Group pursuant to Emerging Issues Task Force 90-13 as a result of the Food Group obtaining control of the Company after the transaction. The assets and liabilities of the Food Group were recorded at their historical cost. The Company's assets and liabilities were recorded at their fair value to the extent acquired. Consideration for the transaction was based on an aggregate of \$36,000,000 in market value of the Company's common stock and the assumption of \$4,000,000 of liabilities. 16,504,298 shares of common stock were issued on the date of the acquisition based on a market price of \$2.18 per share.

The Company operates 41 supermarkets and three free-standing pharmacies in Manhattan, New York, three supermarkets in Westchester County, New York, one supermarket in each of Brooklyn, New York, Bronx, New York and Long Island, New York. All of the supermarkets and pharmacies are leased and operated under the "Gristede's" banner.

The Company also owns City Produce Operating Corp., a company which operates a warehouse and distribution facility primarily for fresh produce on leased premises in the Bronx, New York.

Basis of presentation - The unaudited consolidated financial statements included

herein have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and footnotes thereto included within the Annual Report on Form 10-K for the fiscal year ended December 1, 2002.

In the opinion of management, the information furnished reflects all adjustments (consisting of normal recurring adjustments), which are necessary for a fair statement of the results of operations and financial position of the Company for the interim period. The interim figures are not necessarily indicative of the results to be expected for the fiscal year.

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Principles of Consolidation - The consolidated financial statements include the

accounts of the Company and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Quarter End - The Company operates using the conventional retail 52/53-week

fiscal year. The fiscal quarter ends on the Sunday closest to the end of the quarter. The Company's fiscal year ends on the Sunday closest to November 30.

Inventories - Store inventories are valued principally at the lower of cost or

market with cost determined under the retail first in, first out (FIFO) method.

7

Property and Equipment and Depreciation - Property and equipment is stated at

cost. Depreciation of furniture, fixtures and equipment is computed by the straight-line method over the estimated useful lives of the assets.

Leases and Amortization - The Company charges the cost of noncancelable

operating lease payments and beneficial leaseholds to operations on a straight-line basis over the lives of the leases.

Accrued Self-Insurance - Insurance expense for employee-related health care

benefits are estimated using historical experience.

Deferred Income - Rebates received from vendors that are based on future

purchases are initially deferred and are recognized as a reduction of cost of goods sold when the related inventory is purchased. Rebates not tied directly to purchases are recognized as a reduction of cost of goods sold on a straight-line basis over the related contract term.

Provision for income taxes - Income taxes reflect Federal and State alternative

minimum tax only, as all regular income taxes have been offset by utilization of the Company's net operating loss carry forward.

Income per share - Per share data are based on the weighted average number of

shares of common stock and equivalents outstanding during each quarter. Income per share is computed by the treasury stock method; basic and diluted income per share are the same.

2. RELATED PARTY TRANSACTIONS

Under a management agreement dated November 10, 1997, Namdor Inc., one of the Company's subsidiaries, performs consulting and managerial services for a supermarket owned by a corporation controlled by John A. Catsimatidis. In consideration of such services, Namdor Inc. is entitled to receive, on a quarterly basis, a cash payment of one and one-quarter percent (1.25%) of all sales of inventory and merchandise made by the managed supermarket.

The Company leases the following locations from affiliates: a portion of its warehouse and distribution facility comprising 25,000 square feet, its office

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facilities and nine store locations (one of which commenced operations in the second fiscal quarter). During the 13 weeks ended March 2, 2003 the Company paid \$761,895 to these affiliates for rent and real estate taxes under such leases. The leases are triple net whereby the tenant pays all real estate taxes, insurance and maintenance.

Certain of the Company's supermarkets have entered into capital and operating leases with Red Apple Lease Corp. (formerly Red Apple Leasing, Inc.). These leases are primarily for store operating equipment. Obligations under these leases at March 2, 2003 were \$3,257,934. These leases require that monthly payments of \$76,790 be made to Red Apple Lease Corp. through March 2007.

Certain stores have entered into capital and operating leases with an affiliate, United Acquisition Leasing Corp., a company wholly owned by John Catsimatidis. Such leases are primarily for store operating equipment. Obligations under these leases at March 2, 2003 were \$5,019,965. These leases require that monthly payments of \$116,078 be made to United Acquisition Leasing Corp. with various expirations through February 2008.

Amounts due to affiliates, primarily United Acquisition Corp., a corporation wholly owned by John A. Catsimatidis, represent liabilities in connection with the 1997 merger and additional advances made to the Company by United Acquisition Corp. since the merger. United Acquisition Corp. has agreed not to demand payment of these liabilities in fiscal 2003. Accordingly, the liability

8

has been classified as noncurrent. As part of post-closing adjustments in connection with the 1997 merger, approximately \$3,600,000 that is due from certain of the Company's affiliates has been offset against the amounts due to United Acquisition Corp. The net amount due to affiliates at March 2, 2003 was \$16,188,447, \$15,600,000 of which was subordinated to the Company's banks. The liability presently does not bear interest. However, the Company's credit agreement with its banks permits the Company to pay interest on such subordinated debt provided the Company has a positive net income.

In October 2002, an affiliate of the Company acquired the fixtures, leasehold improvements and store leases of three stores from the Great Atlantic & Pacific Tea Company for a total purchase price of \$5,500,000. The affiliate has leased the acquired assets to the Company. Such stores had been closed for more than six months prior to the transaction. Obligations under these capital leases at March 2, 2003 were \$4,907,255 and require monthly payments of \$79,156 through February 2008 and a balloon payment of \$1,629,156 at such time.

Due from related parties - trade, represents amounts due from affiliated companies for merchandise shipped from the Company's subsidiary City Produce Operating Corp. in the ordinary course of business and for which payments are made to such subsidiary on a continuous basis under extended terms, as well as management fees receivable for administrative and managerial services performed for the affiliated companies by the Company. During the 13 weeks ended March 2, 2003 and March 3, 2002, merchandise sales to affiliates were approximately \$163,000 and \$314,000, respectively. Of the total trade receivable due from an affiliate, \$1,414,436 has been classified as non-current on the balance sheet due to the extended payment terms granted.

On February 6, 1998, the Company agreed to purchase substantially all of the assets and assumed certain of the liabilities of a supermarket located at 1644 York Avenue, New York City, that was owned by a corporation controlled by John Catsimatidis. On March 1, 2000 the Company and the affiliate determined to restructure the transaction by rescinding the purchase effective as of February 6, 1998, and entering into an operating agreement which gives the Company full

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control of the supermarket and the right to operate the supermarket for the account of the Company. The operating agreement presently terminates on December 1, 2003, but the term shall be extended for additional one year periods unless either party gives notice of termination not later than 90 days prior to the end of the then current term of the agreement. Under the operating agreement, the Company shall pay to the affiliate \$1.00 per annum, plus such other consideration as may be approved by the Company's directors (excluding John Catsimatidis). Pursuant to the operating agreement the Company or any designee of the Company, also has the option until December 31, 2005 to purchase the supermarket for \$2,778,000, which price is the fair market price of the supermarket established on October 11, 1999 by the Company's directors (excluding John Catsimatidis).

In May 2000, another affiliate and the Company entered into a similar operating agreement for a store owned by the affiliate. As consideration, the affiliate receives the nominal amount of \$1 per annum, plus such other consideration as may be approved by the Company's directors (excluding John Catsimatidis). The operating agreement presently terminates on May 10, 2004, but the term shall be extended for additional one year periods unless either party gives notice of termination not later than 90 days prior to the end of the then current term of the agreement. Pursuant to the operating agreement, the Company, or any designee of the Company, also has the option until December 31, 2005 to purchase the supermarket for the fair market price of the supermarket as established by the Company's directors (excluding John Catsimatidis) using a valuation criterion similar to that issued for valuing the store at 1644 York Avenue, New York City. It is management's opinion that the fair market value of this store is approximately \$3 million.

The affiliates' intention in entering into these two operating agreements where the Company enjoys full benefits of ownership for the nominal consideration of \$1 per annum per store was to effect post closing adjustments in connection with the Food Group acquisition. If the option to purchase the supermarkets is exercised, the excess of the purchase price over the net book value of the assets will be shown as a charge to equity.

The Company uses the services of an affiliate Red Apple Medical, a corporation wholly-owned by John Catsimatidis, as an agent for self-insurance purposes. All employee medical claims are submitted to a third party administrator who

9

processes claims to be remitted through a controlled account. Such amounts are reimbursed by the Company to the agent. No fees have been paid to this entity for the fiscal years 2002 or 2003 to date.

3. LITIGATION

In re: Red Apple Supermarkets, Inc., Gristede's Supermarkets, Inc., Supermarket Acquisition Corp., and Gristede's Sloan's Inc., Plaintiffs, against Rite Aid Corporation and Rite Aid of New York, Inc., Defendants

The Company settled this litigation in March 2003, whereby Rite Aid returned a store to the Company at 113-119 Fourth Avenue, Manhattan, New York City, which was previously operated by an affiliate of the Company, in settlement of the litigation.

The Company purchased Rite Aid's prescription records and inventory for this location. In addition, the Company paid a nominal fee for Rite Aid's furniture and equipment and the Company has the benefit of Rite Aid's leasehold improvements at the store at no additional cost. The Company believes that the

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fair market value of the acquired store lease and leasehold improvements to be in excess of the settlement sum due from Rite Aid recorded on the Company's books.

4. COSTS RELATING TO THE KINGS ACQUISITION

The Company has incurred costs in an effort to acquire Kings Supermarkets, Inc., a chain of 29 stores, mainly located in Northern New Jersey. The Company intends to continue such efforts to acquire this company. No assurance can be given that this acquisition will be consummated. In connection with the proposed acquisition and related financing, the Company incurred certain costs (principally professional fees) in the amount of \$1,153,380 (included in other assets on the accompanying balance sheet). \$708,175 of such costs are reimbursable to the Company by its affiliate United Acquisition Corp. The deferred costs will be allocated to the purchase price and financing upon completion of the transaction. Should the transaction be unsuccessful, the deferred costs will be charged to operations. Any costs reimbursed by the affiliate will be reflected as a capital contribution.

10

GRISTEDE'S FOODS, INC. AND SUBSIDIARIES

PART I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE QUARTERS ENDED MARCH 2, 2003 AND MARCH 3, 2002

CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60, which was recently released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 2 of the Notes to the Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. The following is a brief discussion of the more significant accounting policies and methods used by us.

General

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates and assumptions relate to the recoverability of internally developed software costs, fixed assets and other intangibles, inventories, realization of deferred income taxes and the adequacy of allowances for doubtful accounts. Actual amounts could differ significantly from these estimates.

Accounts Receivable

We continuously monitor collections and payments from our customers, third party and vendor receivables and maintain a provision for estimated credit losses based upon our historical experience and any specific collection issues that we have identified. While such credit losses have historically been within our

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expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

Inventories

We value our inventory at the lower of cost or market with cost determined under the retail method. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory where appropriate based primarily on our historical shrink and spoilage rates.

Intangibles and Other Long-Lived Assets

Property, plant and equipment, intangible and certain other long-lived assets are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Accrued Self-Insurance

Insurance expense for employee-related health care benefits are estimated using historical experience.

11

Deferred Income

Rebates received from vendors that are based on future purchases are initially deferred and are recognized as a reduction of cost of goods sold when the related inventory is purchased. Rebates not tied directly to purchases are recognized as a reduction of cost of goods sold on a straight-line basis over the related contract term.

RESULTS OF OPERATIONS

The following table sets forth, as a percentage of sales, components of our Results of Operations:

	13 weeks ended 3/2/03 -----	13 weeks ended 3/3/02 -----
Sales	100.0	100.0
Cost of sales	60.9	60.3
	-----	-----
Gross profit	39.1	39.7
Store operating, general and administrative expenses	32.6	30.3
Pre-store opening startup costs	0.3	0.0
Depreciation and amortization	3.2	3.2
Insurance and grant proceeds	0.0	-0.2
Non-store operating expense	3.7	3.9
	-----	-----
Operating income (loss)	-0.7	2.5
Other income (expense)	-1.2	-1.2

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	-----	-----
Income (loss) from operations before		
income taxes	-1.9	1.3
Provisions for income taxes	0.0	0.0
	-----	-----
Net income (loss)	-1.9	1.3
	-----	-----

Sales were \$74,594,759 for the 13 weeks ended March 2, 2003, a 24.8% increase over sales of \$59,790,660 for the 13 weeks ended March 3, 2002.

Same store sales were slightly ahead for the 13 weeks ended March 2, 2003, as compared to the 13 weeks ended March 3, 2002. Same store sales are calculated using stores that were open for business both in the current period and in the same period last year.

Gross profit was \$29,159,386 or 39.1% of sales for the 13 weeks ended March 2, 2003 as compared to \$23,761,115 or 39.7% of sales for the 13 weeks ended March 3, 2002. The decrease in gross profit as a percentage of sales during the 2003 year to date period was primarily due to new stores opened during the latter part of 2002 and in 2003, which have promotional pricing.

The Company expects its recent store expansion, and the remodeled store opened in the current second quarter to also impact results for the remaining quarters of fiscal 2003.

Store operating, general and administrative expenses were \$24,331,332 or 32.6% of sales for the 13 weeks ended March 2, 2003 as compared to \$18,140,022 or 30.3% of sales for the 13 weeks ended March 3, 2002. Store operating, general and administrative expenses increased as a percentage of sales during the 2003 period mainly due to higher labor costs resulting from the new and remodeled stores which opened or re-opened since the 2002 period.

12

Pre-store opening startup costs were \$235,007 for the 13 weeks ended March 2, 2003 as compared to \$0 for the 13 weeks ended March 3, 2002. Two new stores were opened during the 13 weeks ended March 2, 2003 and the Company prepared for a new store which opened after the end of the first quarter, compared to no new or remodeled stores opened or re-opened during the 13 weeks ended March 3, 2002.

Non-store operating expenses were \$2,754,345 or 3.7% of sales for the 13 weeks ended March 2, 2003 as compared with \$2,317,539 or 3.9% of sales for the 13 weeks ended March 3, 2002. Administrative payroll and fringes were 2.7% of sales for both the 13 weeks ended March 2, 2003 and the 13 weeks ended March 3, 2002, respectively. General office expenses were 0.8% of sales for both the 13 weeks ended March 2, 2003 and the 13 weeks ended March 3, 2002, respectively. Professional fees were 0.1% of sales for the 13 weeks ended March 2, 2003 as compared to 0.2% of sales for the 13 weeks ended March 3, 2002. Corporate expenses were 0.1% of sales for each of the 13 weeks ended March 2, 2003 and for the 13 weeks ended March 3, 2002.

Depreciation and amortization expense was \$2,380,026 or 3.2% of sales for the 13 weeks ended March 2, 2003 as compared to \$1,908,654 or 3.2% of sales for the 13 weeks ended March 3, 2002. The increase in depreciation and amortization expense was primarily the result of significant capital expenditures incurred in connection with our store remodeling and expansion program.

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Interest expense was \$842,649 or 1.1% of sales for the 13 weeks ended March 2, 2003 as compared to \$711,829 or 1.2% of sales for the 13 weeks ended March 3, 2002. The increases in the 2003 period was primarily attributable to increased borrowings under the bank line and capital leases for equipment financing, partially offset by lower interest rates.

As a result of the items reviewed above, net income (loss) before provision for income taxes were (\$1,382,736) and for the 13 weeks ended March 2, 2003 as compared to \$760,985 for the 13 weeks ended March 3, 2002.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity:

Our consolidated financial statements indicate that at March 2, 2003 current liabilities exceed current assets by \$227,333 and stockholders' equity was \$9,283,358. Management believes that cash flows generated from operations, supplemented by financing from its bank facility, third party leasing companies and/or additional financing from the Company's majority shareholder, will be sufficient to pay the Company's debts as they may come due, provide for its capital expenditure program and meet its other cash requirements.

Debt and Debt Service:

Effective October 2001, our credit agreement with a group of banks was amended and increased to an aggregate total of \$32,500,000, consisting of a \$15,500,000 term loan and a \$17,000,000 revolving line of credit. As of March 2, 2003, our credit facility, as amended, provides for (i) a maturity date of November 28, 2004 for the revolving line of credit, and December 3, 2006 for the term loan, at which time all amounts outstanding thereunder are due, (ii) certain financial covenants, and (iii) amortization of the term loan in monthly amortizations totaling \$2,000,000, \$2,300,000, \$2,600,000, \$2,900,000 and \$3,200,000, respectively, in each year during its term, and a \$2,500,000 balloon payment at maturity.

Borrowings under our credit facility bear interest at a spread over either the prime rate of the bank acting as agent for the group of banks or a LIBOR rate, with the spread dependent on the ratio of our funded debt to EBITDA ratio,

13

as defined in our credit facility. The average interest rate on amounts outstanding under our credit facility during the quarter ended March 2, 2003 was 4.98% per annum.

Our credit facility contains covenants, representations and events of default typical of credit agreements, including financial covenants which require us to meet, among other things, a minimum tangible net worth, debt service coverage ratios and fixed charge coverage ratios, and which limit transactions with affiliates. Our credit facility is secured by equipment, inventories and accounts receivable.

The Company's majority shareholder, through affiliates, has contributed \$16,188,447 through March 2, 2003, in the form of unsecured non-interest bearing loans, of which \$15,600,000 is subordinated to the Company's banks. The liability presently does not bear interest. However, the Company's credit agreement with its banks permits the Company to pay interest on such

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subordinated debt provided the Company has a positive net income.

The Company has available affiliate leasing lines of credit sufficient to lease finance equipment for its ongoing store remodeling and expansion program.

Capital Expenditures:

Capital expenditures were \$3.4 million for the 13 weeks ended March 2, 2003, including property acquired under capital leases, as compared to \$1.3 million for the 13 weeks ended March 3, 2002.

We have not incurred any material commitments for capital expenditures, although we anticipate spending approximately \$8 million to \$10 million inclusive of new capital leases on our store remodeling and expansion program in fiscal 2003. Such amount is subject to adjustment based on the availability of funds.

Cash Flow:

Cash provided by (used in) operating activities amounted to \$2,685,187 for the 13 weeks ended March 2, 2003 as compared to \$(492,111) for the 13 weeks ended March 3, 2002. The change in cash flow from operating activities was primarily due to increasing accounts payable to support an increase of inventory, primarily due to new stores opened in the quarter. Net cash used for investing activities was \$2,223,162 in 2003 as compared to \$1,308,697 in 2002. Cash provided by (used in) financing activities was \$(421,956) for the 13 weeks ended March 2, 2003 as compared to \$1,875,813 for the 13 weeks ended March 3, 2002 reflecting the bank financing drawn upon in 2002 and the additional proceeds provided by an affiliate of the Company, offset by repayments of bank loans and capital leases.

Recent Accounting Pronouncements:

In June 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, Business Combinations (SFAS 141), and No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if they meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142 that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141. The Company adopted SFAS 141 in the first quarter of fiscal 2002 with no material effect on the financial statements of the Company.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible

asset with an indefinite useful life should be tested for impairment in accordance with the guidelines in SFAS 142. SFAS 142 is required to be applied

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in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. It also requires the Company to complete a transitional goodwill impairment test within six months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142. The Company adopted SFAS 142 in the first quarter of fiscal 2002 with no material effect on its financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 develops an accounting model, based upon the framework established in SFAS No. 121, for long-lived assets to be disposed by sales. The accounting model applies to all long-lived assets, including discontinued operations, and it replaces the provisions of ABP Opinion No. 30, "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for disposal of segments of a business. SFAS No. 144 requires long-lived assets held for disposal to be measured at the lower of carrying amount or fair values less costs to sell, whether reported in continuing operations or in discontinued operations. The statement is effective for fiscal years beginning after December 15, 2001. The Company adopted this standard in the first quarter of fiscal 2003 with no material effect on the financial statements of the Company.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The statement is effective for exit or disposal activities initiated after December 31, 2002. The Company adopted this standard in the first quarter of fiscal 2003 with no material effect on the financial statements of the Company.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". SFAS 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation." Although it does not require use of fair value method of accounting for stock-based employee compensation, it does provide alternative methods of transition. It also amends the disclosure provisions of Statement 123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS No. 148's amendment of the transition and annual disclosure requirements are effective for fiscal years ending after December 15, 2002. The amendment of disclosure requirements of Opinion No. 28 are effective for interim periods beginning after December 15, 2002. The Company will continue to use the intrinsic value method of accounting as allowed under SFAS No. 148 for stock-based compensation for its first quarter of fiscal year 2003.

Forward-looking information:

This report and documents incorporated by reference contain both historical and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "anticipates", "believes", "expects", "intends", "future", and similar expressions identify forward-looking statements. Any such "forward-looking" statements in this

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report reflect the Company's current views with respect to future events and financial performance, and are subject to a variety of factors that could cause the actual results or performance to differ materially from historical results or from the anticipated results or performance expressed or implied by such forward-looking statements. Because of such factors, there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the anticipated results. The risks and uncertainties that may affect the Company's business include, but are not limited to: economic conditions, governmental regulations, technological advances, pricing and competition, acceptance by the marketplace of new products, retention of key personnel, the sufficiency of financial resources to sustain and expand the Company's operations, and other factors described in this report and in prior filings with the

15

Securities and Exchange Commission. Readers should not place undue reliance on such forward-looking statements, which speak only as of the date hereof, and should be aware that except as may be otherwise legally required of the Company, the Company undertakes no obligation to publicly revise any such forward-looking statements to reflect events or circumstances that may arise after the date hereof. A more detailed description of some of the risk factors is set forth in the Company's Annual Report on Form 10-K, dated December 1, 2002.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk represents the risk of loss that may impact the consolidated financial position, results of operations or cash flow of the Company due to adverse changes in financing rates. The Company is exposed to market risk in the area of interest rates. This exposure is directly related to its term loan and borrowing activities under the working capital facility. The Company does not currently maintain any interest rate hedging arrangements due to the reasonable risk that near-term interest rates will not rise significantly. The Company is continuously evaluating this risk and will consider implementing interest rate hedging arrangements when deemed appropriate.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chairman and Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures," which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, the Company's Chairman and Chief Executive Officer and its Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

(b) Changes in Internal Controls

There were no significant changes in the Company's internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

16

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GRISTEDE'S FOODS INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In re: Red Apple Supermarkets, Inc., Gristede's Supermarkets, Inc., Supermarket Acquisition Corp., and Gristede's Sloan's Inc., Plaintiffs, against Rite Aid Corporation and Rite Aid of New York, Inc., Defendants

The Company settled this litigation in March 2003, whereby Rite Aid returned a store to the Company at 113-119 Fourth Avenue, Manhattan, New York City, which was previously operated by an affiliate of the Company, in settlement of the litigation.

The Company purchased Rite Aid's prescription records and inventory for this location. In addition, the Company paid a nominal fee for Rite Aid's furniture and equipment and the Company has the benefit of Rite Aid's leasehold improvements at the store at no additional cost. The Company believes that the fair market value of the acquired store lease and leasehold improvements to be in excess of the settlement sum due from Rite Aid recorded on the Company's books.

ITEM 2. CHANGE IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

An Annual Meeting of Stockholders of the Company was held on January 31, 2003. The stockholders approved the re-election of the Company's existing seven directors for another term expiring at the next Annual Meeting of Stockholders. 18,485,250 shares voted in favor of the election of each of the directors; 6,089 shares voted against the election of each of the directors; there were no abstentions.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Number	Description
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*99.1	Certification pursuant to 18 U.S.C. Section 1350, as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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* Filed herewith.

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- (b) There were no Current Reports on Form 8-K filed during the 13 weeks ended March 2, 2003.

17

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Gristede's Foods, Inc.

By: /s/ John A. Catsimatidis

John A. Catsimatidis
Chairman of the Board and
Chief Executive Officer

Dated: April 21, 2003

By: /s/ Gary Pokrassa

Gary Pokrassa
Chief Financial Officer

Dated: April 21, 2003

18

ANNUAL AND QUARTERLY CERTIFICATIONS

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John A. Catsimatidis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gristede's Foods, Inc.
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, and 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

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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 (or persons performing the equivalent function):
- 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 any 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 annual 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.

/s/ John A. Catsimatidis

Date: April 21, 2003
Title: Chief Executive Officer

19

ANNUAL AND QUARTERLY CERTIFICATIONS

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gary Pokrassa, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gristede's Foods, Inc.
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, and 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;

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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 (or persons performing the equivalent function):
 - 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 any 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 annual 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.

/s/ Gary Pokrassa

Date: April 21, 2003

Title: Chief Financial Officer