

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

GRISTEDES FOODS INC
Form 10-K
March 04, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For fiscal year ended December 2, 2001

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

For the transition period from _____ to _____

Commission File No. 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
(Address of Principal Executive Offices)

10019-3535
(Zip Code)

(212) 956-5803
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.02 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of February 27, 2002, 19,636,574 shares of the registrant's common stock, \$0.02 par value, were outstanding. The aggregate market value of the common stock held by nonaffiliates of the registrant (i.e., excluding shares held by executive officers, directors, and control persons as defined in Rule 405) on that date was \$1,462,345 computed at the closing price on that date.

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

Documents Incorporated by Reference: None

This annual report on Form 10-K contains 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 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 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.

ITEM 1. BUSINESS.

General

The Company is a Delaware corporation whose principal executive offices are located at 823 Eleventh Avenue, New York, New York 10019-3535. Unless the context otherwise requires, the terms "Company" or "Registrant" as used herein refer to Gristede's Foods, Inc. (which is a holding corporation) and its wholly owned subsidiaries.

As of December 2, 2001, the Company operated 42 supermarkets (the "Supermarkets"), and two free standing pharmacies offering health and beauty aids and general merchandise. Thirty-seven Supermarkets and the two pharmacies are located in Manhattan, New York, three Supermarkets are located in Westchester County, New York, one Supermarket is located in Brooklyn, New York and one Supermarket is located in Long Island, New York. All of the supermarkets/pharmacies are operated under the "Gristede's" name. The Company leases all of its Supermarket locations and its two pharmacies. During fiscal 1999 the Company embarked on a plan to open in-store pharmacies in select Supermarket locations. The Company is currently operating six in-store pharmacies and two free standing pharmacies.

During fiscal 2001 the Company opened one new in-store Gristede's pharmacy.

The Company also owns City Produce Operating Corp. ("City Produce"), a corporation that operates a warehouse used as an internal distribution center, on leased premises in Bronx County, New York. The warehouse operation supplies the Company's Supermarkets with groceries and fresh produce. The warehouse also sells wholesale fresh produce to third parties. During fiscal 1999 the warehouse operation leased an additional 20,000 square feet next to its current premises in order to meet its increasing demands for merchandise.

The Company competes on the basis of providing customer convenience, service and a wide assortment of food products, including those that are appealing to the clientele in the neighborhoods where its Supermarkets are located. The Supermarkets, like most Manhattan supermarkets, are smaller than their suburban counterparts, ranging in size from approximately 3,000 to 24,500 square feet of selling space and averaging 9,700 square feet of selling space.

The Supermarkets offer, at competitive prices, broad lines of merchandise, including nationally and regionally advertised brands, private label and generic brands. Merchandise sold includes food items such as fresh meats, produce, dry groceries, dairy products, baked goods, poultry and fish, fresh fruits and vegetables, frozen foods, and delicatessen and gourmet foods, as well as many non-food items such as cigarettes, soaps, paper products, and health and beauty aids. Check-cashing services are available to qualified customers holding check-cashing cards and, for a small fee, the Company will deliver groceries to a customer's apartment door. The Supermarkets accept payment by Mastercard, Visa, American Express, IGT and Discover credit cards. Most of the Supermarkets are open sixteen hours per day, seven days a week and on holidays, including Christmas, New Year's and Thanksgiving. Most of the Supermarkets close two hours earlier on Sundays.

The Company's predecessor was incorporated in 1956 in New York. In 1985, the Company's domicile was changed to Delaware by merging the predecessor corporation into a newly formed Delaware corporation, incorporated for such purpose. The Company became a public company in 1968 and listed its Common Stock on the American Stock Exchange in 1972. Until 1992, the Company engaged in the jewelry business, operating under the name Designcraft Industries, Inc. for most of such time. The Company changed its name to Sloan's Supermarkets, Inc., in September 1993 and to Gristede's Sloan's, 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.

Growth Strategy

On November 10, 1997, a Merger Agreement was consummated pursuant to which 29 Supermarkets directly or indirectly owned by Mr. Catsimatidis, (the "majority shareholder") merged into wholly owned subsidiaries of the Company (the "Merger"). The Company believes that the Merger has allowed it to realize synergies and increased operating leverage while providing management with the necessary resources and focus to streamline operations, automate facilities and capitalize on strategic opportunities. The Company also believes that the Merger has enabled it to achieve the critical mass necessary to execute its future growth strategy.

Subsequent to the Merger, the Company embarked on a capital expenditure program for its Supermarkets that includes extensive remodelings, the introduction of a centralized point-of-sale information system and the opening of in-store pharmacies in select Supermarket locations. The Company has a \$32,500,000 revolving credit and term loan facility from certain banks maturing in November 2004 and December 2006, respectively and lease finance facilities from third party leasing companies to finance such capital improvements. (see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation-Liquidity and Capital Resources").

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

During the fiscal year ended December 2, 2001, six stores were remodeled, and one store added a new in-store pharmacy. The aggregate capital expenditures, including such remodelings and new store openings, was approximately \$12,200,000. Subject to the availability of financing, during the fiscal year ending December 1, 2002, the Company anticipates it will spend approximately \$8 to 10 million in aggregate capital expenditures, including additional remodelings and new store and pharmacy openings. The Company anticipates that it will continue opening new stores and pharmacies in future years. The modernized larger Supermarkets are being re-named "Gristede's Mega Stores".

Average sales increases at the remodeled stores have exceeded 50%. Modernization has resulted in a more enjoyable shopping atmosphere with more rapid check-out lines due to scanners and improved lighting facilities.

The Company may also expand its operations through the acquisition of supermarkets and/or the acquisition of businesses that the Company believes would complement its core supermarket business. However, pursuant to an order embodying a Settlement Agreement between the Federal Trade Commission (the "FTC"), John Catsimatidis, the Company and certain other companies controlled by Mr. Catsimatidis (collectively, the "Companies"), for a period of ten years from March 6, 1995, the Company cannot, without prior FTC approval, acquire any interest in any existing supermarket in a designated area in Manhattan. The order does not restrict the Company from acquiring an interest in a supermarket (in such designated area) by leasing or purchasing a new location that at the time of acquisition (and for six months prior to the acquisition) is not (or was not) being operated as a supermarket. There are no restrictions on the Company acquiring supermarkets that are located outside the designated area.

Marketing

The Company advertises in local newspapers on a weekly basis. The Company's advertising emphasizes competitive prices and a variety of merchandise. Some of the Company's vendors offer cooperative advertising allowances, which the Company receives for advertising particular products in its newspaper advertisements.

Competition

The Company's retail business is subject to intense competition, characterized by low profit margins and requiring regular advertising. All of our Supermarkets are in direct competition with Food Emporium, D'Agostino, A&P, Pathmark and independent supermarket/grocery operators which do business under the names "Pioneer", "Key Food" and "Associated", many of which are larger and have substantially greater resources than the Company. The Supermarkets also compete with other outlets that sell products sold by supermarkets in New York City. Those outlets include gourmet food stores, health and beauty aid stores, drug stores, produce stores, bodegas, delicatessens and other retail food establishments.

-4-

Sources of Supply; Inventory Policy

During fiscal 2001 the Company obtained approximately 39% of the merchandise sold in its stores from one principal merchandise supplier, White Rose Foods, and the balance from other vendors, none of which accounted for more than 10% of merchandise purchased by the Company. The Company believes that its supplier relationships are currently satisfactory. The Company is not dependent on these supplier relationships since merchandise is readily available from numerous sources under different brand names, subject to conditions affecting

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

food supplies generally.

The Company's policy is to have its Supermarkets fully stocked with merchandise at all times. This policy requires the Company to carry significant amounts of inventory. As stated above, replenishment merchandise is readily available from the Company's suppliers, and, on average, approximately 90% of the Company's inventory is sold before the Company is required to pay its suppliers.

Tradenames

The Company owns the "Gristede's" tradename. Such name has an established reputation in the areas served by the Supermarkets for convenience, competitive prices, service and a wide variety of quality produce and merchandise. "Gristede's" is a federally registered trademark.

Labor Contracts

All of the employees of the Company other than 127 administrative employees and executives and 64 store managers and co-managers are represented by unions. The table below sets forth the name of each union with which the Company has a collective bargaining agreement and the expiration date of such agreement.

Name of Union -----	Expiration Date -----
Retail, Wholesale & Chain Store Food Employees Union, Local 338	October 5, 2002
Amalgamated Meat Cutters and Retail Food Local 342 Store Employees Union, Local 342-50	October 5, 2003
United Food and Commercial Workers Union ("UFCW"), Local 174	December 21, 2002
UFCW, Local 1500	June 23, 2002
UFCW, Local 464A	May 1, 2003
International Brotherhood of Teamsters ("Teamsters"), Local 803	June 30, 2002
Teamsters, Local 202	December 31, 2003

Governmental Approvals

All of the Supermarkets have obtained all necessary governmental approvals, licenses and operating permits to operate the stores.

-5-

Employees

At February 1, 2002, the Company had approximately 1,748 employees, 1,596 of which are employed at the Supermarkets or the City Produce warehouse, and 152 of which are employed at the Company's executive offices. Approximately 605 of the employees were employed on a full-time basis of which 454 work in the Supermarkets.

Seasonality

The Company's Supermarkets are predominantly located in the borough of Manhattan in New York City and serve a more affluent clientele often referred to as the "carriage trade." Owing to the significant exodus of such customers during the summer months for vacation and holiday, together with an increased

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

propensity by resident customers for out of home dining during such period, the Company traditionally incurs up to a 20% seasonal drop in sales during the months of July and August each year. The seasonal decline in sales does not have a material impact on the level of inventories carried by the Company.

Environmental Compliance

Compliance by the Company with Federal, State and local provisions that have been enacted or adopted regarding the discharge of materials into the environment, or otherwise relating to the protection of the environment, does not have a material financial impact on the Company.

ITEM 2. PROPERTIES.

The Company leases all 42 supermarket locations, its two free standing pharmacies and the warehouse and distribution center operated by City Produce. Four of such leases expire prior to 2003, 23 of such leases expire on dates from 2003 through 2011 and 19 of such leases expire on dates from 2012 through 2020 (the warehouse is subject to three leases). Several leases have optional renewal periods. It is generally the Company's intention to exercise such options for viable stores. The supermarkets range in size from approximately 3,000 to 24,500 square feet of selling space, averaging 9,700 square feet of selling space. All of the stores are air-conditioned, have all necessary fixtures and equipment and are suitable for the retail operations conducted therein.

-6-

ITEM 3. LEGAL PROCEEDINGS.

1) RMED International Inc. v. Sloan's Supermarkets Inc. and John A. Catsimatidis.

On August 8, 1994, a lawsuit against the Company and Mr. Catsimatidis was instituted in the United States District Court for the Southern District of New York by RMED International, Inc. ("RMED"), a former stockholder of the Company.

The complaint alleges, among other things, that RMED and a purported class consisting of persons who purchased the Company's common stock on or after March 19, 1993 were damaged by alleged nondisclosures in certain filings made by the Company with the Securities and Exchange Commission between January 1993 and June 1994 relating to an investigation by the FTC. The complaint alleges that such nondisclosures constituted violations of Federal and New York State securities laws, as well as common law fraud, and seeks damages (including punitive damages) in an unspecified amount (although in discovery proceedings, the named plaintiff has claimed that its damages were approximately \$800,000) as well as costs and disbursements of the action. On June 2, 1994, the Company issued a press release that disclosed the FTC action.

On September 30, 1994, the defendants filed a motion to dismiss for failure to state a cause of action and for lack of subject matter jurisdiction over the state claims. The motion was denied. In June 1995, the plaintiff filed a motion for class certification, which motion was granted in March 1996. Fact discovery was completed by the end of June 1998. Expert discovery was completed by the end of 1998. Plaintiff's expert prepared a report claiming that plaintiffs have suffered damages in an amount in excess of \$3,000,000. In August 1999, defendants moved to exclude plaintiff's expert report, which motion was denied. In June 2000, the Company filed a motion for summary judgment. In February 2002, the court dismissed plaintiff's state law claim under Article 23-A of the General Business Law of New York, as well as plaintiff's claim for breach of fiduciary duty, but denied the Company's motion with respect to the plaintiff's

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

claim under Section 10(b) of the Securities Exchange Act of 1934, as amended and Rule 10(b)-5 promulgated thereunder, as well as plaintiff's claim of fraud under state common law, finding that there were outstanding issues of fact which needed to be determined at trial. Pre-trial conference has been scheduled for March 4, 2002.

At this state of the litigation, the outcome cannot be predicted with certainty. However, the Company believes that it has a viable defense that may result in dismissal of RMED's claims.

2.) Ansoumana v. Great Atlantic & Pacific Tea Company, Inc. d/b/a/ A&P, Shopwell Inc. - d/b/a Food Emporium, Gristede's Operating Corp, Duane Reade, Inc., Charlie Bauer, individually and d/b/a B&B Delivery Service a/k/a Citi Express, Scott Weinstein and Steven Pilavan, ind. and d/b/a Hudson Delivery Service Inc., Chelsea Trucking, Inc. a/k/a Hudson York.

On January 13, 2000 plaintiffs, commenced a class action lawsuit in the U.S District Court for the Southern District of New York. Their complaint alleges violations of the Fair Labor Standards Act and the New York Labor Law. Plaintiffs are claiming damages for the differential between the amount they were paid by The Great American Delivery Service Company and what the minimum wage was in each specific year dating back to 1994. To date, 35 employees have opted into the class action.

-7-

Specifically, the Company was one of the parties sued in this litigation by delivery workers claiming they are not being paid the minimum wage. The delivery workers are employees of the Great American Delivery Company (formerly known as B&B Delivery Service or Citi Express), not employees of the Company. The Company is under contract with Great American to deliver groceries to the Company's customers.

In its answer, the Company denied the allegations and cross-claimed against the delivery service co-defendants Weinstein and Bauer, based upon their own negligence, theories of contribution and contractual indemnity.

When allegations of underpayment first emerged last summer, the Company, on August 2, 2000, entered into a new contract with Great American. This contract was entered into in order to assure the Company that these delivery men would be properly and legally paid for their services. The legal hourly wages referred to in the contract were discussed with the New York Attorney General's office.

The Company is conducting an investigation of Great American to determine whether or not Great American is in compliance with the contract and the legal options available with respect to the contract terms.

Management expects the matter will be resolved in the near future. The Company will vigorously defend the fact that these workers are employees of Great American, and not employees of the Company.

On July 23, 2001, the Company terminated its Delivery Service Agreement with Great American Delivery Co., Inc. ("Great American") because Great American breached the terms of the contract. Based upon that termination, Great American commenced a breach of contract action in Supreme Court, Nassau County, against the Company and obtained a preliminary injunction compelling the Company to retain Great American as its delivery service contractor.

Thereafter, Great American was found to be in contempt of several orders and added as a party-defendant by motion to amend the complaint in the Ansoumana v.

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

the Company's action. In response to those proceedings, Great American filed for bankruptcy. Hence, the breach of contract action commenced by Great American against the Company was stayed. The Company transferred the case to the United States Bankruptcy Court in the Eastern District of New York and is moving to have the case transferred further to the judge assigned to Ansoumana v. Gristede's in the United States District Court of the Southern District of New York. When this is done, the Company will move the Court to have the matter dismissed.

3.) 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

Pursuant to a settlement agreement dated February 22, 1999 (the "Settlement Agreement"), between the Company and Rite Aid Corporation ("Rite Aid"), Rite Aid agreed to compromise a dispute between the parties arising out of a written lease purchase agreement dated September 2, 1994 (the "Lease Purchase Agreement"). Pursuant to the Settlement Agreement, Rite Aid agreed to pay the sum of \$400,000 (the "Settlement Sum") to the Company in full and final satisfaction of certain claims and disputes regarding defendants' breaches of the Lease Purchase Agreement. However, to date, Rite Aid

-8-

has failed and refused to pay any portion of the Settlement Sum as required by the Settlement Agreement. Consequently, on June 5, 2000, plaintiffs filed a complaint in the Supreme Court of the State of New York (New York County) which alleged: Breach of Settlement Agreement, Breach of Good Faith and Fair Dealing and Breach of Lease Purchase Agreement. Such complaint seeks judgment against Rite Aid in the full amount of the Settlement Sum, together with interest from February 22, 1999.

As alleged in the complaint, the Lease Purchase Agreement contemplated defendants' purchase of certain commercial leasehold interests held by plaintiffs, in two stores. Pursuant to the Lease Purchase Agreement, defendants agreed to purchase plaintiffs' leasehold interest in the two stores for \$1,950,000. However, in violation of the Lease Purchase Agreement - as well as their duty of good faith and fair dealing thereunder - defendants negotiated and obtained their own leasehold interest for both stores directly from each landlord, and failed to compensate plaintiffs as agreed.

To date, no depositions have been taken. At this stage of litigation, it is too early to determine the outcome of the litigation. However, it is the opinion of the Company's counsel that the likelihood of success on the Company's claim for breach of the Settlement Agreement is substantial. A receivable in the amount of \$400,000 from Rite Aid is included in receivables as of December 2, 2001.

-9-

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS.

An Annual Meeting of Stockholders of the Company was held on November 30, 2001. The stockholders approved an amendment to the Certificate of Incorporation of the Company to change the term for which the Class 2 directors shall serve from three years to one year. The number of votes cast in favor of this proposal was 18,050,150. There were no votes cast against and 4,610 abstentions. In addition, each of Martin Bring and Frederick Selby was elected as a Class 2 director to serve for a term expiring at the 2003 Meeting of Stockholders.

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

18,050,150 shares voted in favor of the election of each of Mr. Bring and Mr. Selby with 4,610 votes abstaining and no votes cast against.

-10-

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market Information

The Company's Common Stock is listed and traded on the American Stock Exchange. Since November 12, 1997 the Common Stock has been quoted under stock symbol "GRI." Prior thereto it was quoted under the symbol "SLO." For the years ended December 2, 2001 and December 3, 2000, the quarterly high and low price range for such common stock is shown in the following tabulation.

Quarter	Fiscal Year Ended December 2, 2001		Fiscal Year Ended December 3, 2000	
	High	Low	High	Low
First	\$1.63	\$0.85	\$2.65	\$2.13
Second	1.47	0.85	2.75	1.75
Third	1.85	0.91	2.63	1.50
Fourth	1.45	0.78	2.25	0.88

The approximate number of holders of record of the Company's Common Stock on February 28, 2002 was 212. The Company believes that there are a significant number of shares of the Company's Common Stock held in street name and, consequently, the Company is unable to determine the actual number of beneficial owners.

Dividends

The Company has never paid a cash dividend on its Common Stock and does not expect to pay a cash dividend in the near future.

-11-

ITEM 6. SELECTED FINANCIAL DATA

	Year ended			
	December 2, 2001	December 3, 2000	November 28, 1999	November 29, 1998
Sales	\$229,988,315	\$ 216,325,214	\$ 181,980,204	\$ 157,462,869
Cost of sales	139,180,967	131,259,228	112,565,940	94,282,306
Gross profit	90,807,349	85,065,986	69,414,264	63,180,563
Direct operating				

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

expenses	71,596,708	67,550,165	57,632,921	53,490,803
Corporate overhead	8,329,559	7,435,949	5,917,305	4,742,810
Depreciation and amortization	7,204,281	6,284,971	4,668,645	3,948,000
Bad debt expense (credits)	250,354	(350,000)	500,000	--
Interest expense	3,537,281	3,761,941	2,528,677	1,832,036
Net Income (Loss)	\$ 275,057	\$ (190,908)	\$ (2,873,331)	\$ (288,339)
At End of Period				
Total assets	\$101,131,361	\$ 96,446,057	\$ 76,432,518	\$ 60,706,509
Long-term debt	32,157,025	30,249,494	32,686,550	21,649,942
Total liabilities	89,538,860	85,128,613	64,924,166	46,324,826

Certain reclassifications were made to fiscal 2000 consolidated financial statements to conform to the fiscal 2001 presentation.

* As a result of the Merger (see "Growth Strategy") being accounted for as a reverse acquisition, the transition period referred to herein encompasses the operation of the Food Group for 36 weeks, and the operations of the new combined companies for the three week post-Merger period November 10, 1997 to November 30, 1997.

-12-

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Company Background

The fiscal year ended December 3, 2000 consisted of 53 weeks and the fiscal years ended December 2, 2001 and November 28, 1999 consisted of 52 weeks each.

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

	2001	2000	1999
	----	----	----
Sales	100.0%	100.0%	100.0%
Cost of Sales	60.5%	60.7%	61.9%
	-----	-----	-----
Gross Profit	39.5%	39.3%	38.1%
Store operating, general and administrative expense	31.1%	31.2%	31.7%
Pre-store opening startup costs	0.1%	0.2%	0.4%
Bad debt expense (credits)	--	(0.2%)	0.3%
Depreciation and amortization	3.1%	2.9%	2.6%
Insurance proceeds - terrorist attack	(0.7%)	--	--
Casualty loss - terrorist attack	0.5%	--	--
Non-store operating expense	3.6%	3.4%	3.3%
	-----	-----	-----
Operating profit (loss)	1.6%	1.7%	(0.1%)
Other expense	1.4%	1.7%	1.2%
	-----	-----	-----
Profit (loss) from operations before			

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

income taxes and cumulative effect of change in accounting principles	0.2%	(0.1%)	(1.3%)
	-----	-----	-----
Cumulative effect of change in accounting principle	--	0.0%	(0.3%)
Income Taxes	0.1%	--	--
	-----	-----	-----
Net Income (loss)	0.1%	(0.1%)	(1.6%)
	-----	-----	-----

Percentages of individual line items (as a percent of sales) have been rounded to the nearest tenth of a percent, and therefore, the totals may not add to 100%.

Results of Operations (2001 Compared to 2000)

Sales for the year 2001 were \$229,988,315 as compared to sales for the year 2000 of \$216,325,214. The sales increase in fiscal 2001 compared to the sales in fiscal 2000, offset by the sales for the extra week in fiscal 2000 of approximately \$4.5 million, is mainly attributable to sales increases due to new or remodeled stores opened in fiscal 2001 or full years sales for those new or remodeled stores opened during 2000. Same store sales for the year 2001 were 5.5% ahead of 2000.

-13-

Gross profit was \$90,807,349 or 39.5% of sales as compared with \$85,065,986 or 39.3% of sales for 2000. The increase in gross profit during 2001 period was primarily due to fewer promotional price reductions in connection with the grand re-opening periods of the new and newly remodeled stores.

Store operating, general and administrative expenses were \$71,596,708 or 31.13% of sales for the year 2001 as compared to \$67,550,165 or 31.23% of sales for the year 2000. The virtually unchanged result in store operating, general and administrative expenses as a percentage of sales in the 2001 period was mainly due to effective cost controls in relation to the increased sales. Advertising expenses included in store operating, general and administrative expense were \$1,572,963 and 1,555,707 for the years 2001 and 2000, respectively.

Pre-store opening startup costs were \$165,000 or 0.1% of sales for the year 2001 as compared to \$518,981 or 0.2% of sales for the year 2000. There were six stores remodeled in 2001 compared to eight in 2000, leading to reduced pre-store opening startup costs in 2001.

Non-store operating expenses were \$8,329,559 or 3.6% of sales for the year 2001 as compared to \$7,435,949 or 3.4% of sales for the year 2000. Administrative payroll and fringes were 2.4% of sales for the 2001 period as compared with 2.3% of sales for the 2000 period. The increase in the 2001 period reflects the addition of department and divisional managers to handle the additional business generated by the store remodeling program. General office expenses as a percentage of sales were 0.9% for the 2001 period as compared to 0.8% for the 2000 period. The increase during the 2001 period was primarily due to additional back office expenses in relation to the increased sales. Professional fees were 0.3% of sales for both the 2001 period and the 2000 period. Corporate expenses as a percentage of sales were 0.1% for both the 2001 period and the 2000 period.

Depreciation expense was \$7,204,281 or 3.1% of sales for the year 2001 as compared to \$6,284,971 or 2.9% of sales for the year 2000. The increase was primarily a result of significant capital expenditures incurred in connection

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

with the Company's store renovation and remodeling program.

Management has filed claims with its insurance carriers as a result the September 11 terrorist attacks for its losses, including business interruption, and estimates net proceeds of approximately \$1.5 million, along with costs incurred of approximately \$1.1 million. The Company has suffered property damage losses, including inventory, costs to repair and clean fixtures and facilities and loss of revenue. The Company received an advance of \$300,000 against these claims in October 2001.

Interest expense was \$3,537,281 or 1.5% of sales for year 2001 as compared to \$3,761,941 or 1.7% of sales for year 2000. The decrease in the 2001 period was primarily attributable to lower prevailing interest rates under the Company's bank credit facility, partially offset by increased capitalized equipment leasing.

Interest income for the year 2001 was \$9,016 as compared with \$24,113 for the year 2000. The decrease in the 2001 period was due to lower prevailing interest rates in the 2001 period.

-14-

Other income (expenses) for the year 2001 was \$173,112 as compared with (\$27,000) for the year 2000. This mainly results from the sale of a store lease resulting from a closed store.

Bad debt expense (credits) was \$250,354 for the year 2001 as compared with (\$350,000) for the year 2000. As a result of the increase in the amount of the Company's receivables, in the 1999 period, management deemed it prudent to set up an allowance for doubtful accounts in the amount of \$500,000 in the 1999 period, and to reduce that amount by \$350,000 in the 2000 period as a result of progress in pursuing collection of a \$400,000 receivable. Bad debt expense increased in the year 2001 primarily as a result of the Company's expansion of its pharmacy business and systems relating thereto and the resulting increase in third party receivables.

As a result of the items discussed above, the income before provision for income taxes for the year 2001 was \$373,897 as compared to a loss of \$138,908 for the year 2000.

Results of Operations (2000 Compared to 1999)

Sales for the year 2000 were \$216,325,214 as compared to sales for the year 1999 of \$181,980,204. The sales increase in fiscal 2000 compared to the sales in fiscal 1999, other than the sales for the extra week in fiscal 2000 of approximately \$4.5 million, is mainly attributable to sales increases due to new or remodeled stores opened in fiscal 2000 or full years sales for those new or remodeled stores opened during 1999. Same store sales for the year 2000 were 8.8% ahead of 1999.

Gross profit was \$85,065,986 or 39.3%, of sales for 2000 as compared with \$69,414,264 or 38.1% of sales for 1999. The increase in gross profit during 2000 period was primarily due to fewer promotional price reductions in connection with the grand re-opening periods of the new and newly remodeled stores as well as the recovery of certain stores from unusually low gross margins during the fourth quarter of fiscal 1999.

Store operating, general and administrative expenses were \$67,550,165 or 31.2% of sales for the year 2000 as compared to \$57,632,921 or 31.7% of sales for the year 1999. The decrease in store operating, general and administrative

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

expenses as a percentage of sales in the 2000 period was mainly due to better cost controls in relation to the increased sales. Advertising expenses included in store operating, general and administrative expense were \$1,555,707 and 1,290,121 for the years 2000 and 1999, respectively.

Pre-store opening startup costs were \$518,981 or 0.2% of sales for the year 2000 as compared to \$799,529 or 0.4% of sales for 1999. There were five stores remodeled in 2000 compared to seven in 1999, leading to reduced pre-store opening startup costs in 2000.

Non-store operating expenses were \$7,435,949 or 3.4% of sales for the year 2000 as compared to \$5,917,305 or 3.3% of sales for the year 1999. Administrative payroll and fringes were 2.3% of sales for the 2000 period as compared with 2.2% of sales for the 1999 period. The increase in the 2000 period reflects the addition of supervisory and data processing personnel to handle the additional business generated by the store remodeling program and the conversion and updating of the Company's information technology systems. General office expenses as a percentage of sales were 0.8% for the 2000 period as compared to 0.6% for the 1999 period. The increase during the 2000 period was primarily due to additional back office expenses in relation to the increased sales.

-15-

Professional fees were 0.3% of sales for both the 2000 period and the 1999 period. Corporate expenses as a percentage of sales were 0.1% for both the 2000 period and the 1999 period.

Depreciation expense was \$6,284,971 or 2.9% of sales for the year 2000 as compared to \$4,668,645 or 2.6% of sales for the year 1999. The increase was primarily a result of significant capital expenditures incurred in connection with the Company's store renovation and remodeling program.

Interest expense was \$3,761,941 or 1.7% of sales for year 2000 as compared to \$2,528,677 or 1.4% of sales for the year 1999. The increase in the 2000 period was primarily attributable to increased borrowings under the Company's bank credit facility, increased capitalized equipment leasing and increased interest rates.

Interest income for the year 2000 was \$24,113 as compared with \$82,865 for the year 1999. The decrease in the 2000 period was due to the reduction in outstanding notes receivable as compared to the 1999 period.

Other income (expenses) for the year 2000 was (\$27,000) as compared with \$308,773 for the year 1999. Other income for the 1999 period represents net income from the buyout of a lease on a non-productive store.

Bad debt expense (credits) was (\$350,000) for the year 2000 as compared with expense of \$500,000 for the year 1999. As a result of the increase in the amount of the Company's receivables, in the 1999 period, management deemed it prudent to set up an allowance for doubtful accounts in the amount of \$500,000 in the 1999 period, and to reduce that amount by \$350,000 in the 2000 period as a result of progress in pursuing collection of a \$400,000 receivable.

As a result of the items discussed above, the net loss before provision for income taxes for the year 2000 was \$138,908 as compared to a net loss of \$2,241,175 for the year 1999.

Liquidity and Capital Resources

Liquidity:

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

The consolidated financial statements of the Company indicate that at December 2, 2001 current assets exceed current liabilities by \$5,074,115 and stockholders' equity was \$11,592,501. Management believes that cash flows generated from operations, supplemented by financing from its banks 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, the Company's 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 December 2, 2001, the 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

-16-

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 the 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 the Company's funded debt to EBITDA ratio, as defined in the credit agreement. The average interest rate on amounts outstanding under the facility during the year 2001 was 5.77% per annum.

The credit facility contains covenants, representations and events of default typical of credit facility agreements, including financial covenants which require the Company 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. The facility is secured by equipment, inventories and accounts receivable.

The Company's majority shareholder, through affiliates, has contributed in excess of \$15,300,000 through December 2, 2001, in the form of unsecured non-interest bearing demand loans, with \$12,800,000 subordinated to the current bank lender. 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.

The Company has available approximately \$3,250,000 in third party and affiliate leasing lines of credit to lease finance equipment for its store remodeling and expansion program.

Capital Expenditures:

Capital expenditures for fiscal 2001, including property acquired under capital leases, were \$12.2 million compared to \$14.3 million for fiscal 2000 and \$12.4 million for fiscal 1999. During fiscal 2001, the Company remodeled six stores and added one new in-store pharmacy.

The Company has not incurred any material commitments for capital expenditures, although it anticipates spending approximately \$8 million to \$10 million on its store remodeling and expansion program in fiscal 2002. Such

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

amount is subject to adjustment based on the availability of funds.

Cash Flows:

Cash provided by operating activities amounted to \$9.3 million in fiscal 2001 compared to \$8.5 million in fiscal 2000. The change in cash flow from operating activities was primarily due to cash provided by operating assets and liabilities and a net profit compared to a loss. Cash used for investing activities was \$6.3 million in 2001 compared to \$8.6 million in 2000, resulting from decreased capital expenditures. Cash provided by (used in) financing activities was (\$3.0) million in 2001 compared with \$0.2 million in 2000 reflecting the bank financing drawn upon in 2001, the additional proceeds provided by an affiliate, offset by repayments of bank loans and capital leases.

Recent Accounting Pronouncements:

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 represents a comprehensive framework of accounting rules that standardizes

-17-

the accounting for all derivatives. SFAS No. 133 applies to all entities and to all types of derivatives, and is effective as amended in fiscal year 2001. The adoption of SFAS 133 in fiscal 2001 did not affect the financial statements of the Company.

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 believes that the adoption of SFAS 141 will not materially affect 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 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 believes that the adoption of SFAS 142 will not materially affect the financial statements of the Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

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.

-18-

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

	Page No. -----
Independent auditors' report	F-1
Consolidated Balance Sheets as of December 2, 2001 and December 3, 2000	F-2
Consolidated Statements of Operations for the years ended December 2, 2001, December 3, 2000 and November 28, 1999	F-4
Consolidated Statements of Stockholders' Equity for the years ended December 2, 2001, December 3, 2000 and November 28, 1999	F-6
Consolidated Statements of Cash Flows for the years ended December 2, 2001, December 3, 2000 and November 28, 1999	F-7
Notes to Financial Statements	F-8

-19-

ITEM 9 CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below is certain information as of February 27, 2002 with respect to all directors and executive officers of the Company.

	Director Since	Position with the Company or Other Principal Occupation for the Past Five Years
Name and Age	-----	-----
-----	-----	-----

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

John A. Catsimatidis (53)	1988(5)	Chairman of the Board, President and Chief Executive Officer of the Company since July 28, 1988; Treasurer of the Company from July 28, 1988 to March 17, 1998 and since November 15, 1999; President and Chief Executive Officer of Red Apple Group, Inc. (holding company) of the Board and Chief Executive Officer and Director of the Company (a refiner and retailer of petroleum products) from 1983 to 1988; Director of News Communications Inc., a public company, since 1991; is traded over-the-counter, since December 4, 1991.
Martin R. Bring (59)	1988	Partner in the law firm of Anderson Kill & Olick, PC., previously of Wolf, Block, Schorr and Solis-Cohen LLP, New York, N.Y. since 1988; firm for more than five years.
Frederick Selby (64)	1978	Managing Director of The Chart Group, L.P., an investment management firm, since January 2000; Chairman of Selby Capital Partners (a private equity firm) since 2000; sale of privately owned firms and divisions of public companies from 1998 to 2000; more than five years; Managing Director and senior officer of the acquisitions division of Bankers Trust Company; Senior Vice President of Corporate Finance of B.A.I.I. Banking (Paris) and Director of Corporate Finance of Legg Mason Wood Walker prior thereto.

 (5) Mr. Catsimatidis also served as a director of the Company from November 4, 1986 to November 27, 1987.

-20-

Kishore Lall (54)	1997	Director of the Company since October, 1997; consultant to the Company from January 1997 to October 1997; private industry consultant from 1994 to December 1996; Senior Vice President and Head of the Banking ABN AMRO Bank, New York branch from January 1991 to October 1997.
Martin Steinberg (68)	1998	Independent consultant. Mr. Steinberg also served as a director of the Company from May 1974 to January 1991.
Edward P. Salzano (54)	1999	Executive Vice President and Director of Cantisano Foods, a privately held sauce and salsa manufacturing company, from 1999 to 2002; 10 years.
Gary Pokrassa (54)	--	Chief Financial Officer of the Company since August 14, 2002; Financial Officer of Syndata Technologies, Inc., from February 1999 to July 2000; Vice President - Finance of Innovir Laboratories from March 1993 to February 1997.

Mr. Dennis E Berberich (62) was a director of the Company until February 21, 2002, when he passed away.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires directors and officers of the Company and persons who own more than 10 percent of the Company's common stock to file with the Securities and Exchange Commission (the "Commission") initial reports of ownership and reports of changes in ownership of the common stock. Directors, officers and more than 10 percent stockholders are required by the Exchange Act to furnish the Company with copies of all Section 16(a) forms they file.

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no reports were required during fiscal 2001, all Section 16(a) filings applicable to its directors, officers and more than 10 percent beneficial owners were timely filed.

-21-

ITEM 11. EXECUTIVE COMPENSATION.

The following table sets forth for the fiscal years ended December 2, 2001, December 3, 2000 and November 28, 1999, certain information concerning the compensation paid or accrued to certain executive officers of the Company.

Name and principal position	Year	Annual Compensation			Long-term compensation	
		Salary (\$)	Bonus (\$)	Other annual compensation (\$)	Restricted stock award(s) (\$)	Options /Sar's (#)
John Catsimatidis, Chairman of the Board, President and Chief Executive Officer	Fiscal 2001	\$100,000	\$ --	\$ --	\$ --	--
	Fiscal 2000	101,923	--	--	--	--
	Fiscal 1999	100,000	--	--	--	--
Gary Pokrassa Chief Financial Officer *	Fiscal 2001	\$150,000	--	--	--	--
	Fiscal 2000	46,154	--	--	--	--
	Fiscal 1999	--	--	--	--	--

(a) Represents the personal use of a Company vehicle

* Mr. Pokrassa's employment by the the Company commenced in August 2000.

Options Granted in Last Fiscal Year

The following table sets forth certain information concerning options granted during fiscal 2001 to the executive officers named in the Summary Compensation Table.

Name	Number of Securities Underlying Options Granted (#)	Percentage of Total Options Granted to Employees in 2001	Exercise Price (\$/Share)	Market Price of Common Stock on Date of Grant (\$/Share)	Expiration Date
John Catsimatidis	0	--	--	--	--
Gary Pokrassa	0				

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

-22-

Aggregate Options Exercised in Last Fiscal Year and Fiscal Year End Option Values

During fiscal 2001, no stock options were exercised by either of the executive officers named in the Summary Compensation Table. The following table sets forth the number and value of options outstanding at December 2, 2001 held by the executive officers named in the Summary Compensation Table:

Name	Number of Unexercised Options Held on December 2, 2001	Value of Unexercised in-the-Money Options on December 2, 2001
	----- Exercisable/Unexercisable -----	----- Exercisable/Unexercisable -----
John Catsimatidis	525,000/0	0/0
Gary Pokrassa	0/0	0/0

The closing sales price of the Common Stock on the American Stock Exchange on November 30, 2001 (the last trading day before December 2, 2001) was \$1.30. On December 2, 2001 Mr. Catsimatidis held options to purchase 275,000 shares of Common Stock at \$3.75 per share and options to purchase 250,000 shares at \$2.875 per share. Mr. Pokrassa held no options.

Compensation of Directors

Non-officer directors receive a quarterly stipend of \$1,500 and \$500 for each meeting attended. Directors who serve on committees receive \$500 for each meeting attended.

Compensation Committee Interlocks and Insider Participation

The Board of Directors has a Compensation Committee consisting of Frederick Selby and Martin Steinberg. During fiscal 2001, none of the Directors on the Compensation Committee were employees or officers of the Company nor had a relationship with the Company requiring disclosure under Item 13, "Certain Relationships and Related Transactions." Mr. Dennis E Berberich (62) was a member of the Compensation Committee until February 21, 2002, when he passed away.

Report on Executive Compensation

During fiscal 2001, the Compensation Committee did not meet. Compensation of the Company's executive officers for fiscal 2001 was determined by the Company's Board of Directors.

During fiscal 2001, the stock option committee did not meet.

Total compensation for executive officers of the Company consists of a combination of salaries, bonuses when applicable, and stock option awards.

Stock option awards are intended to attract and retain senior management personnel by offering them an opportunity to receive additional compensation based upon the performance of the Company's Common Stock. No stock options were granted to the executive officers during fiscal 2001. See table - Options Granted in Last Fiscal Year.

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

-23-

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information regarding ownership of Common Stock on February 27, 2002 by: (i) each stockholder known to the Company to own beneficially more than 5% of the outstanding shares of Common Stock; (ii) each of the Company's directors; and (iii) all officers and directors of the Company as a group. Except as otherwise indicated, the address of each person is c/o Gristede's Foods, Inc., 823 Eleventh Avenue, New York, N.Y. 10019-3535. The Company believes that ownership of the shares by the persons named below is both of record and beneficial and such persons have sole voting and investment power with respect to the shares indicated.

Name and Address of Beneficial Owner -----	Number of Shares -----	Percent of Class -----
John Catsimatidis	18,575,150 (1)	92%
Martin Steinberg 2042 Whalen Ave Merrick, NY 11566	127,642 (2)	*
Kishore Lall	70,000 (3)	*
Martin Bring	26,000 (4)	*
Frederick Selby	13,110 (5)	*
Edward P. Salzano 197 Graney Drive River Vale, New Jersey 07675	3,000	*
Gary Pokrassa	0	*
All officers and directors as a group (7 persons)	18,814,902 (6)	93%

* Less than 1%.

- (1) Includes an aggregate of 12,473,974 shares held by corporations controlled by Mr. Catsimatidis, 81,900 shares held by Mr. Catsimatidis as custodian, 2,057 shares held by a profit sharing plan of which Mr. Catsimatidis is a trustee, 605 shares held by Mr. Catsimatidis as a trustee of individual retirement accounts and currently exercisable options to purchase an aggregate of 525,000 shares of Common Stock.
- (2) Includes an aggregate of 15,000 shares of Common Stock which may be purchased upon the exercise of currently exercisable stock options.
- (3) Includes an aggregate of 50,000 shares of Common Stock which may be purchased upon the exercise of currently exercisable options.
- (4) Includes an aggregate of 26,000 shares of Common Stock which may be purchased upon the exercise of currently exercisable stock options.
- (5) Includes an aggregate of 11,000 shares of Common Stock which may be purchased upon the exercise of currently exercisable options.
- (6) Includes an aggregate of 612,000 shares of Common Stock which may be purchased upon the exercise of currently exercisable stock options.

-24-

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Under a management agreement dated November 10, 1997 (the "Management Agreement"), Namdor Inc., a subsidiary of the Company, performs consulting and managerial services for supermarkets owned by corporations controlled by the majority shareholder. In consideration of such services, Namdor Inc. is entitled to receive, on a quarterly basis, a cash payment of one and one-quarter (1.25%) percent of all sales of inventory and merchandise made at or from the managed supermarkets. During 2001, 2000, and 1999, management fee income was \$47,222, \$66,244, and \$99,732, respectively.

Effective as of January 1, 1994, the Company entered into Indemnification Agreements with each of its directors and officers other than Kishore Lall. The Company entered into an Indemnification Agreement with Kishore Lall effective as of October 30, 1997, and also entered into Indemnification Agreements with two former officers effective March 17, 1998, Martin Steinberg effective July 21, 1998, Dennis Berberich effective August 18, 1998, Edward Salzano effective August 12, 1999, and Gary Pokrassa effective November 10, 2000. Said agreements supplement the indemnification provisions of the Company's By-laws and the Delaware General Corporation Law. The stockholders of the Company authorized the Company to enter into such agreements with each of its directors at the Annual Meeting of Stockholders held on August 21, 1987. The Board of Directors has authorized the Company to enter into such agreements with each of its officers.

Certain stores have entered into capital and operating leases with an affiliate, C & S Acquisition Corp. (formerly Red Apple Leasing, Inc). (a company wholly owned by the majority shareholder). Such leases are primarily for store operating equipment. Obligations under capital leases at December 2, 2001 and December 3, 2000 were \$1,409,251 and \$63,042, respectively and require monthly payments of \$76,790 through July 2003. In January 2002, the Company entered into an amendment of these leases, which will result in additional financing of \$2,750,000 and will be treated on its books as a new transaction. Such monthly payments will be extended through March 2007 and will constitute the debt service on the new financing.

By virtue of his ownership of Common Stock (see Item 12. "Security Ownership of Certain Beneficial Owners and Management") and his position as Chairman of the Board of the Company, John Catsimatidis may be deemed to be a "parent" of the Company under rules promulgated by the Commission.

The Company leases the following locations: a 25,000 square foot warehouse, its office facilities and five store locations from affiliates. During fiscal 2001 the Company paid to such affiliates \$1,610,000 for rent and real estate taxes under such leases. The lease terms provide for an aggregate of \$1,935,000 per year in lease payments for fiscal 2002. The leases are triple net whereby the tenant pays all real estate taxes, insurance and maintenance.

Certain stores have entered into capital leases with an affiliate, United Acquisition Leasing Corp. (a company wholly owned by the majority shareholder). Such leases are primarily for store equipment. Obligations under capital leases at December 2, 2001 were \$1,416,433 and require monthly payments of \$31,609 through November 2006.

Wolf, Block, Schorr and Solis Cohen, LLP, a law firm of which a director of the Company was a partner, charged the Company \$65,906, \$225,322, and \$235,260 in fees for rendering legal services to the Company during 2001, 2000, and 1999, respectively.

Amounts due to an affiliate, United Acquisition Corp., a corporation indirectly wholly owned by the majority shareholder, represent liabilities in

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

connection with the consummation of the merger as discussed in Note 1 and additional advances made by the affiliate since the merger. The affiliate

-25-

has agreed not to demand payment of these liabilities in the next fiscal year. Accordingly, the liability has been classified as noncurrent. As part of post-closing adjustments in connection with the Food Group Acquisition, approximately \$3,600,000 in due from affiliates has been offset against the amounts due to United Acquisition Corp. The net amount due to affiliate at December 2, 2001 was \$15,318,843. Of this amount \$12,800,000 was subordinated to the Company's banks. The liability does not bear interest.

MCV Advertising Associates Inc., a company owned by the majority shareholder, had provided advertising services to the Company. During 2000 and 1999, costs incurred were \$1,306,218, \$1,191,957, respectively. The Company no longer uses MCV and buys advertising direct instead.

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 2001 and 2000, merchandise sales to affiliates were \$1,792,174 and \$636,562, respectively. This affiliate purchased its merchandise from a third party prior to 2000.

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 the majority shareholder. 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 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, 2002, but the term shall be extended for additional one year periods unless either party shall give 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, 2003, but the term shall be extended for additional one year periods unless either party shall give 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.

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

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

-26-

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.

In connection with the restructure of the transaction relating to the supermarket located at 1644 York Avenue, \$3,072,000 was included in "Due from related parties - other" on the accompanying balance sheet as of December 3, 2000. Such amount has been paid or offset against amounts due from affiliates during Fiscal 2001.

-27-

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as part of this Annual Report on Form 10-K.

1. Consolidated Financial Statements:

The Consolidated Financial Statements filed as part of this Form 10-K are listed in the "Index to Consolidated Financial Statements" in Item 8."

2. Consolidated Financial Statement Schedule:

The Consolidated Financial Statement Schedule filed as part of this report is listed in the "Index to S-X Schedule".

Schedules other than those listed in the accompanying Index to S-X Schedule are omitted for the reason that they are either not required, not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.

-28-

GRISTEDE'S FOODS, INC. AND SUBSIDIARIES

INDEX TO S-X SCHEDULE

	Page

Independent Auditors' Report	29
Schedule II -- -Valuation & Qualifying Accounts	30

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Gristedes's Foods, Inc.

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

The audits referred to in our report dated February 22, 2002, relating to the consolidated financial statements of Gristede's Foods, Inc. and subsidiaries, which is contained in Item 8 of this Form 10-K, included the audits of the financial statement schedule listed in the accompanying index for each of the three fiscal years in the period ended December 2, 2001. This financial statement schedule is the responsibility of management. Our responsibility is to express an opinion on this schedule based on our audits.

In our opinion, the financial statement Schedule II - Valuation and Qualifying Accounts, presents fairly, in all material respects, the information set forth therein.

BDO Seidman, LLP
New York, NY
February 22, 2002

-29-

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION DEDUCTIONS	Balance At Beginning of Period	Additions Charged to Costs and Expenses	Deductions For Write-Off
YEAR ENDED Nov. 28, 1999:			
Reserve and allowances deducted from asset accounts:			
Allowance for uncollectible accounts	\$ 0	500,000	0
YEAR ENDED Dec. 3, 2000:			
Reserve and allowances deducted from asset accounts:			
Allowance for uncollectible accounts	\$500,000	\$ 50,000	\$ (400,000)
YEAR ENDED Dec. 2, 2001:			
Reserve and allowances deducted from asset accounts:			
Allowance for uncollectible accounts	\$150,000	\$250,354	\$ (12,646)

-30-

(3) Exhibits

Number	Description
-----	-----
3.1	Amended and Restated Certificate of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K of the fiscal year ended February 28, 1990 (the "1990 10-K").
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-KSB for the

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

fiscal year ended February 27, 1994 (the "1994 10-KSB").

- 3.3 Certificate of Amendment of Certificate of Incorporation of the Company, dated November 4, 1997. Incorporated by reference to Exhibit 3.4 to the Registrant's Annual Report on Form 10-K for the transition period ended November 30, 1997 (the "Transition Period 10-K").
 - 3.4 Certificate of Amendment of Certificate of Incorporation of the Company, dated August 13, 1999.
 - 3.5 Certificate of Amendment of Certificate of Incorporation of the Company dated November 10, 2000.
 - 3.6 Amended and Restated Bylaws of the Registrant. Incorporated by reference to Exhibit 3.2 to the 1990 10-K.
 - 10.1 Form of Indemnification Agreement dated as of January 1, 1994 between the Registrant and each director of the Registrant. Incorporated by reference to Exhibit 10.11 to the 1994 10-KSB.
 - 10.2 Form of Indemnification Agreement dated as of January 1, 1994 between the Registrant and each officer of the Registrant. Incorporated by reference to Exhibit 10.12 to the 1994 10-KSB.
 - 10.3 1994 Stock Option Plan. Incorporated by reference to Exhibit 10.12 of the Company's Annual Report on Form 10-KSB for the fiscal year ended February 26, 1995 ("1995 10-KSB").
 - 10.4 Director Stock Option Plan. Incorporated by reference to Exhibit 10.13 of the Company's 1995 10-KSB.
 - 10.5 Merger Agreement. Incorporated by reference to Exhibit A to the Company's definitive Proxy Statement for the Special and Annual Meeting of Stockholders of the Company held on October 31, 1997.
 - 10.6 Loan Agreement dated as of November 7, 1997 between the Company, European American Bank ("EAB"), Israel Discount Bank of New York ("IDBNY"), Keybank National Association ("Keybank") and Bank Leumi Trust Company of New York ("Bank Leumi"). Incorporated by reference to Exhibit 10.6 to the Transition Period 10-K. All exhibits and schedules to the Loan Agreement are omitted, but the Registrant undertakes to provide copies of any or all of the foregoing exhibits and schedules to the Securities and Exchange Commission upon its request.
- 31-
- 10.7 Management Agreement dated November 10, 1997 between Namdor Inc., G Remainder Corp. and S Remainder Corp. Incorporated by reference to Exhibit 10.7 to the Transition Period 10-K.
 - 10.8 Agreement dated as of March 1, 2000 between G Remainder Corp. and Gristede's Operating Corp. Incorporated by reference to Exhibit 10.8 to the Company's annual report in Form 10-K for the fiscal year ended November 28, 1999 (the "1999 10-K").
 - 10.9 First Amendment and Waiver to Loan Agreement dated April 30, 1998 between the Company, IDBNY, Keybank and Bank Leumi. Incorporated by reference to Exhibit 10.9 to the Transition Period 10-K.

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

- 10.10 1998 Stock Option Plan. Incorporated by reference to Exhibit 10.10 to the Transition Period 10-K.
- 10.11 Agreement dated March 1, 2000 between John Catsimatidis and the Company. Incorporated by reference to Exhibit 10.11 to the 1999 10-K.
- 10.12 Second Amendment to Loan Agreement dated as of August 29, 1998 between the Company, European American Bank, Israel Discount Bank of New York, Keybank and Bank Leumi. Incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended November 29, 1998 (the "1998 10-K").
- 10.13 Third Amendment to Loan Agreement dated as of November 28, 1998 between the Company, European American Bank, Israel Discount Bank of New York, Keybank and Bank Leumi. Incorporated by reference to Exhibit 10.13 to the 1998 10-K.
- 10.14 Fourth Amendment to Loan Agreement dated as of February 27, 1999 between the Company, EAB, IDNY, Keybank and Bank Leumi. Incorporated by reference to Exhibit 10 the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 1999.
- 10.15 Fifth Amendment to Loan Agreement dated as of May 29, 1999 between the Company, EAB, IDNY, Keybank and Bank Leumi. Incorporated by reference to Exhibit 99 to the Company's Current Report on Form 8-K dated June 15, 1999.
- 10.16 Sixth Amendment to Loan Agreement dated as of November 27, 1999 among the Company EAB IDNY, Dime Savings Bank of New York (as successor to Keybank) and Bank Leumi. Incorporated by reference to the 1999 10-K.
- 10.17 Agreement dated May 10, 2000 between S Remainder Corp and Namdor Inc.
- 10.18 Agreement dated December 3, 2000 between John Catsimatidis and the Company.
- 10.19 Seventh Amendment to Loan Agreement dated as of December 1, 2000 among the Company, Citibank, IDNY, Dime Savings Bank of New York (as successor to Keybank) and Bank Leumi.
- 10.20 Eighth Amendment to Loan Agreement dated as of December 2, 2000 among the Company, Citibank, IDNY, Dime Savings Bank of New York (as successor to Keybank) and Bank Leumi.
- 10.21 Ninth Amendment to Loan Agreement dated as of June 2, 2001 among the Company, Citibank, IDNY, Dime Savings Bank of New York (as successor to Keybank) and Bank Leumi. *
- 10.22 Amended and Restated Loan Agreement dated as of October 31, 2001 among the Company, Citibank, Israel Discount Bank of New York, and Bank Leumi USA. *
11. Statement re computation of per share income (loss). Not required.

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

21. Listing of the Company's subsidiaries all of which are wholly owned by the Company.

Subsidiaries	State of Incorporation
Namdor Inc.	New York
City Produce Operating Corp.	New York

*Filed herewith.

- b) The Company did not file any Current Reports on Form 8-K during the last quarter of the period covered by this report.

-33-

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRISTEDE'S FOODS, INC.

Dated: March 4, 2002

By: /s/ John A. Catsimatidis

John A. Catsimatidis
Chairman of the Board

Signature	Title	Date
<p>/s/ John A. Catsimatidis ----- John A. Catsimatidis</p>	<p>Chairman of Board, President and Chief Executive Officer (Chief Executive Officer and Chief Operating Officer)</p>	<p>March 4, 2002</p>
<p>/s/ Martin Bring ----- Martin Bring</p>	<p>Director</p>	<p>March 4, 2002</p>
<p>/s/ Frederick Selby ----- Frederick Selby</p>	<p>Director</p>	<p>March 4, 2002</p>
<p>/s/ Kishore Lall ----- Kishore Lall</p>	<p>Director</p>	<p>March 4, 2002</p>
<p>/s/ Gary Pokrassa ----- Gary Pokrassa</p>	<p>Chief Financial Officer (Chief Financial Officer and Chief Accounting Officer)</p>	<p>March 4, 2002</p>

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

/s/ Martin Steinberg Director March 4, 2002

Martin Steinberg

/s/ Edward P. Salzano Director March 4, 2002

Edward P. Salzano

-34-

Independent Auditors' Report

Board of Directors of
Gristede's Foods, Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of Gristede's Foods, Inc. and subsidiaries (the "Company") as of December 2, 2001 and December 3, 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the fifty-two weeks, fifty-three weeks and fifty-two weeks ended December 2, 2001, December 3, 2000 and November 28, 1999, respectively. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gristede's Foods, Inc. and subsidiaries as of December 2, 2001 and December 3, 2000, and the results of their operations and their cash flows for the fifty-two weeks, fifty-three weeks and fifty-two weeks ended December 2, 2001, December 3, 2000 and November 28, 1999, respectively, in conformity with accounting principles generally accepted in the United States of America.

New York, NY
February 22, 2002

/s/ BDO Seidman, LLP

BDO Seidman, LLP

Gristede's Foods, Inc.
and Subsidiaries

Consolidated Balance Sheets

=====

December 2, December 3,
2001 2000

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

Assets		
Current:		
Cash	\$ 475,873	\$ 412,408
Accounts receivable - net of allowance for doubtful accounts of \$413,000 and \$150,000, respectively	6,702,715	6,864,329
Inventories	32,378,606	30,104,955
Due from related parties - trade	1,092,571	879,000
Due from related parties - other	--	3,072,000
Prepaid expenses and other current assets	2,233,876	2,488,337
Total current assets	42,883,641	43,821,029
Property and equipment		
Furniture, fixtures and equipment	18,067,058	16,838,262
Capitalized equipment leases	23,970,127	18,714,519
Leasehold interests and improvements	52,901,265	47,963,768
	94,938,450	83,516,549
Less: Accumulated depreciation and amortization	41,193,533	35,228,221
Net property and equipment	53,744,917	48,288,328
Deposits and other assets	1,044,141	951,596
Other assets	3,458,662	3,385,104
	\$101,131,361	\$96,446,057

See accompanying notes to consolidated financial statements.

F-2

Gristede's Foods, Inc.
and Subsidiaries

Consolidated Balance Sheets

	December 2, 2001	December 3, 2000
Liabilities and Stockholders' Equity		
Current:		
Accounts payable, trade	\$ 26,978,700	\$ 26,956,398
Accrued payroll, vacation and withholdings	2,435,312	2,397,593
Accrued expenses and other current liabilities	2,067,031	1,343,421
Capitalized lease obligation - current portion	3,950,221	2,362,457
Current portion of long-term debt	2,378,262	6,388,426
Total current liabilities	37,809,526	39,448,295
Long-term debt-noncurrent portion	23,108,333	22,027,652
Due to affiliate	15,318,843	12,129,031
Capitalized lease obligation - noncurrent portion	9,048,692	8,221,842
Deferred rent	4,253,466	3,301,793

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

Total liabilities	89,538,860	85,128,613

Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.02 par value - shares authorized 25,000,000; issued and outstanding 19,636,574	392,732	392,732
Additional paid-in capital	14,136,674	14,136,674
Retained earnings (deficit)	(2,936,905)	(3,211,962)

Total stockholders' equity	11,592,501	11,317,444

	\$ 101,131,361	\$ 96,446,057
=====		

See accompanying notes to consolidated financial statements.

F-3

Gristede's Foods, Inc.
and Subsidiaries

Consolidated Statements of Operations

	52 Weeks Ended December 2, 2001	53 Weeks Ended December 3, 2000	52 Week Novem
Sales	\$ 229,988,315	\$ 216,325,214	\$ 181,
Cost of sales	139,180,967	131,259,228	112,

Gross profit	90,807,349	85,065,986	69,
Store operating, general and administrative expenses	71,596,708	67,550,165	57,
Pre-store opening startup costs	165,000	518,981	
Bad debt expense (credit)	250,354	(350,000)	
Depreciation and amortization	7,204,281	6,284,971	4,
Insurance proceeds - terrorist attack	1,536,510	--	
Casualty loss - terrorist attack	(1,068,908)	--	
Nonstore operating expenses:			
Administrative payroll and fringes	5,445,675	4,930,755	4,
General office expense	1,998,374	1,679,382	1,
Professional fees	709,448	649,983	
Corporate expense	176,062	175,829	

Operating income (loss)	3,729,050	3,625,920	(

Other income (expense):			
Interest expense	(3,537,281)	(3,761,941)	(2,
Interest income	9,016	24,113	
Other income	173,112	(27,000)	

Total other expense	(3,355,153)	(3,764,828)	(2,

Income (loss) before provision for income taxes and cumulative effect of			

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

change in accounting principle	373,897	(138,908)	(2,
Provision for income taxes	98,840	52,000	

Income (loss) before cumulative effect of change in accounting principle	275,057	(190,908)	(2,
Cumulative effect of change in accounting principle	--	--	(
=====			
Net income (loss)	\$ 275,057	\$ (190,908)	\$ (2,
=====			

Continued

F-4

Gristede's Foods, Inc.
and Subsidiaries

Consolidated Statements of Operations

Net income (loss) per share of common stock - basic and diluted:			

Income (loss) before cumulative effect of change in accounting principle	\$ 0.01	\$ (0.01)	\$

Cumulative effect of change in accounting principle	--	--	

Net Income (loss)	\$ 0.01	\$ (0.01)	\$

Weighted average common shares outstanding	19,636,574	19,636,574	19,
=====			

See accompanying notes to consolidated financial statements.

F-5

Gristede's Foods, Inc.
and Subsidiaries

Consolidated Statements of Stockholders' Equity

Common stock		Additional paid-in capital	Retained Earnings (deficit)
Number of Shares	Amount		
=====			

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

Balance, November 29, 1998	19,636,574	\$392,732	\$14,136,674	\$ (147,723)
Net loss	--	--	--	(2,873,331)
Balance, November 28, 1999	19,636,574	392,732	14,136,674	(3,021,054)
Net loss	--	--	--	(190,908)
Balance, December 3, 2000	19,636,574	392,732	14,136,674	(3,211,962)
Net income	--	--	--	275,057

Balance, December 2, 2001	19,636,574	\$392,732	\$14,136,674	\$(2,936,905)
=====				

See accompanying notes to consolidated financial statements.

F-6

Gristede's Foods, Inc.
and Subsidiaries

Consolidated Statements of Cash Flows

	52 Weeks Ended December 2, 2001	53 Weeks Ended December 3 2000

Cash flows from operating activities:		
Net income (loss)	\$ 275,057	\$ (190,908)
Adjustments to reconcile loss to net cash provided by (used) in operating activities:		
Depreciation and amortization	7,204,281	6,284,971
Allowance for doubtful accounts	262,807	(350,000)
Gain on sale of store	(192,177)	--
Changes in operating assets and liabilities:		
Accounts receivable	(101,193)	(1,314,582)
Due from related parties - trade	(213,571)	(879,000)
Due from related parties - other	3,072,000	(3,072,000)
Inventories	(2,273,651)	(4,863,279)
Prepaid expenses and other current assets	254,461	(726,959)
Notes receivable	--	562,826
Other assets	(677,252)	(1,205,321)
Accounts payable, trade	22,302	12,531,049
Accrued payroll, vacation and withholdings	37,719	970,442
Accrued expenses and other current liabilities	723,610	(167,269)
Deferred rent	951,673	909,040

Net cash provided by (used in) operating activities	9,346,065	8,489,010

Cash flows from investing activities:		
Proceeds from sale of store	225,000	--
Capital expenditures	(6,475,969)	(8,583,643)

Net cash used in investing activities	(6,250,969)	(8,583,643)

Cash flows from financing activities:		
Repayments of bank loans	(3,429,483)	(1,366,667)
Repayments of capitalized lease obligations	(3,291,959)	(2,390,405)

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

Proceeds from bank loans	500,000	950,000
Net proceeds from affiliate	3,189,812	3,015,531

Net cash provided by (used in) financing activities	(3,031,630)	208,459

Net increase (decrease) in cash	(63,465)	113,826
Cash, beginning of period	412,408	298,582
=====		
Cash, end of period	\$ 475,873	\$ 412,408
=====		
Supplemental disclosures of cash flow		
Cash paid for interest	\$ 3,764,726	\$ 3,814,882
Cash paid for income taxes	97,135	84,930
=====		
Supplemental disclosure of non-cash investing and financing activities		
Capital leases - property and equipment and other assets	\$ 5,706,573	\$ 5,752,726
=====		

See accompanying notes to consolidated financial statements.

F-7

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

1. Business and Basis of Presentation

As of December 2, 2001, Gristede's Foods, Inc. and subsidiaries (the "Company") operates 42 supermarkets, two pharmacies and a distribution facility in the New York Metropolitan area.

On August 12, 1999, the Company changed its name from Gristede's Sloan's Inc., ("Sloan's") to Gristede's Foods, Inc. to reflect its strategy of changing its "Sloan's" banner locations to "Gristede's" subsequent to a store remodeling.

On November 10, 1997, the Company acquired certain assets, net of liabilities, of 29 selected supermarkets and a wholesale distribution business ("The Food Group") controlled by John Catsimatidis (the "majority shareholder") of the Company. The transaction was accounted for as the acquisition of Sloan's by The Food Group pursuant to Emerging Issues Task Force 90-13 as a result of The Food Group obtaining control of Sloan's after the transaction. The assets and liabilities of The Food Group (the "Acquiror") are recorded at their historical cost. The 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. The Company issued 16,504,298 shares of common stock on the date of the acquisition based on a market price of \$2.18 per share.

The Company did not recognize any gain or loss as a result of the above acquisition. The Company underwent an "Ownership Change" within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended, as a consequence of the transaction. As a result, the Company's ability to offset its net operating loss carryforwards against income earned after the transaction is limited.

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Gristede's Foods, Inc. and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year ends on the Sunday closest to November 30. The fiscal years ended December 2, 2001, December 3, 2000 and November 28, 1999 include 52, 53 and 52 weeks respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, and highly liquid investments which are readily convertible to known amounts of cash and which have maturities of three months or less.

Revenue Recognition

The Company recognizes revenues from the sale of merchandise at the time merchandise is sold.

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.

Store Pre-opening Expenses and Closing Costs

Statement of Position 98-5, "Accounting for Start-up Costs", requires an entity to expense all start-up related costs as incurred for fiscal years beginning after December 15, 1998 and to write down the unamortized portion of such costs previously capitalized. The Company adopted SOP 98-5 during 1999, and accordingly, costs incurred prior to the opening of a new store, associated with a remodeled store, or related to the opening of a

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

distribution facility are charged against earnings as pre-store opening start-up costs when incurred. When a store is closed, the Company expenses unrecoverable costs and accrues a liability equal to the present value of the remaining lease obligations, net of expected sublease income. As a result of this adoption in 1999 the Company took a one-time, non-cash charge reflecting the cumulative effect of a change in an accounting principle in the amount of \$610,000, representing such costs capitalized as of the beginning of fiscal year 1999. During 2001, 2000 and 1999, \$165,000, \$519,000 and \$800,000 of pre-store opening start-up costs were expensed, respectively.

Significant Concentrations

During fiscal 2001, 2000 and 1999, the Company purchased approximately 39%, 38% and 40%, respectively, of its merchandise from a single supplier. If the Company's relationship with this supplier were disrupted, the Company could purchase from other suppliers without negative impact on its business.

Inventories

Store inventories are valued principally at the lower of cost or market with cost determined under the retail method.

Property, Equipment, Depreciation and Amortization

Property and equipment are stated at cost. Depreciation of furniture, fixtures and equipment is computed by the straight-line method over the estimated useful lives of the assets, with lives ranging from seven to ten years. Leasehold interest and improvements are amortized over the shorter of their estimated useful lives or the lease term, on a straight-line basis, including optional periods where the Company intends to exercise its option.

Software Costs

The Company follows the provisions of the American Institute of Certified Public Accountants' Statement of Position 98-1,

F-10

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements
=====

"Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires the capitalization of certain internally generated software costs. In fiscal 2001 the Company capitalized \$500,000 of such software costs. In previous years the amount was not material. Such software is amortized over three years and for fiscal 2001 the Company recorded amortization expense of \$18,000.

Leases

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

Advertising Expense

The Company expenses advertisement costs when the advertisement is first shown. During 2001, 2000 and 1999, \$1,572,963, \$1,555,707 and \$1,290,121 of advertising

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

costs were expensed, respectively.

Other Assets

Other assets consist mainly of acquisition, prescription lists and financing costs and are amortized on a straight-line basis over five to ten years. Non-compete agreements generally are amortized over the life of the agreement up to ten years.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

F-11

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

=====

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, income and expenses and disclosures of contingencies. Actual results could differ from those estimated.

Stock-Based Compensation Plans

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" allows either adoption of a fair value method of accounting for stock-based compensation plans or continuation of accounting under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations with supplemental disclosures.

The Company has chosen to account for all stock-based compensation arrangements under APB Opinion No. 25 with related disclosures under SFAS No. 123. Pro forma net earnings (loss) per common share amounts as if the fair value method had been adopted are presented in Note 10.

Fair Value of Financial Instruments

SFAS No. 107, "Disclosure About Instruments" requires companies to disclose the fair value of financial instruments. The carrying values of cash and cash equivalents, accounts receivable and accounts payable reported in the accompanying consolidated balance sheets approximate fair value due to the short-term maturities of these assets.

The fair value of long-term debt, consisting of the term loans and revolving loan payable as of December 2, 2001 and December 3, 2000, approximates the recorded book value because of the fluctuating interest rates. It was not practical to determine the fair value of the amount due to affiliate, because of

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

the uncertain repayment terms.

F-12

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

Long-Lived Assets

During 1995, SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of", was issued. SFAS No. 121 requires the Company to review long-lived assets and certain identifiable assets related to those assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. If the undiscounted future cash flows of the enterprise are less than their carrying amounts, their carrying amounts are reduced to fair value and an impairment loss is recognized. No impairment losses have been necessary through December 2, 2001.

Earnings (Loss) per Share

The Company follows SFAS No. 128, "Earnings Per Share," ("EPS") which requires a presentation of basic EPS and diluted EPS. Basic EPS excludes dilution and is computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS assumes conversion of convertible debt and the issuance of common stock for all other potentially dilutive equivalent shares outstanding. Diluted EPS is not shown since the options which could potentially dilute basic EPS would have been anti-dilutive for the periods presented.

Reclassification

Certain reclassifications were made to the fiscal 2000 and 1999 consolidated financial statements to conform to the fiscal 2001 presentation.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 represents a comprehensive framework of accounting rules that standardizes the

F-13

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

accounting for all derivatives. SFAS No. 133 applies to all entities and to all types of derivatives, and is effective as amended in fiscal year 2001. The adoption of SFAS 133 in fiscal 2001 did not affect the financial statements of the Company.

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

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 believes that the adoption of SFAS 141 will not materially affect 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 in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date,

F-14

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

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 believes that the adoption of SFAS 142 will not materially affect the financial statements of the Company.

3. Related Party Transactions

a) 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 the majority shareholder. 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 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, 2002, but the term shall be extended for additional one year periods unless either party shall give 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).

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

In May 2000, another affiliate and the Company entered into a similar operating agreement for a store owned by the affiliate. As

F-15

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

=====
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, 2003, but the term shall be extended for additional one year periods unless either party shall give 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.

In connection with the restructure of the transaction relating to the supermarket located at 1644 York Avenue, \$3,072,000 was included in "Due from related parties - other" on the accompanying balance sheet as of December 3, 2000. Such amount has been paid or offset against amounts due from affiliates during Fiscal 2001.

(b) Under a management agreement dated November 10, 1997 (the "Management Agreement"), Namdor Inc., a subsidiary of the Company, performs consulting and managerial services for supermarkets owned by corporations

F-16

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

=====
controlled by the majority shareholder. In consideration of such services, Namdor Inc. is entitled to receive, on a quarterly basis, a cash payment of one and one-quarter (1.25%) percent of all sales of inventory and merchandise made at or from the managed supermarkets. During 2001, 2000, and 1999, management fee income was \$47,222, \$66,244, and \$99,732, respectively.

(c) Certain stores have entered into capital and operating leases with an affiliate, C & S Acquisition Corp. (formerly Red Apple Leasing, Inc). (a company

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

wholly owned by the majority shareholder). Such leases are primarily for store operating equipment. Obligations under capital leases at December 2, 2001 and December 3, 2000 were \$1,409,251 and \$63,042, respectively and require monthly payments of \$76,790 through July 2003. In January 2002, the Company entered into an amendment of these leases, which will result in the availability of additional financing of \$2,750,000. Such monthly payments will be extended through March 2007 and will constitute the debt service required of the Company on the new financing.

The Company leases the following locations: a 25,000 square foot warehouse, its office facilities and five store locations from affiliates. During fiscal 2001 the Company paid to such affiliates \$1,610,000 for rent and real estate taxes under such leases. The lease terms provide for an aggregate of \$1,935,000 per year in lease payments for fiscal 2002. The leases are triple net whereby the tenant pays all real estate taxes, insurance and maintenance. (See Note 6.)

(d) Certain stores have entered into capital leases with an affiliate, United Acquisition Leasing Corp. (a company wholly owned by the majority shareholder). Such leases are primarily for store equipment. Obligations under capital leases at

F-17

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

December 2, 2001 were \$1,416,433 and require monthly payments of \$31,609 through November 2006.

(e) MCV Advertising Associates Inc., a company owned by the majority shareholder, had provided advertising services to the Company. During 2000 and 1999, costs incurred were \$1,306,218, \$1,191,957, respectively. The Company no longer uses MCV and buys advertising direct instead.

(f) Wolf, Block, Schorr and Solis Cohen, LLP, a law firm of which a director of the Company was a partner, charged the Company \$65,906, \$225,322, and \$235,260 in fees for rendering legal services to the Company during 2001, 2000, and 1999, respectively.

(g) 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 2001 and 2000, merchandise sales to affiliates were \$1,792,174 and \$636,562, respectively. This affiliate purchased its merchandise from a third party prior to 2000.

F-18

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

4. Other Assets

Additions in 2001 totaling \$1,037,687 consist of \$298,436 in debt costs, a \$50,000 covenant not to compete, \$502,344 in customer lists and \$186,907 of other items. None of these items have residual value and all have a weighted average life of five years.

At December 2, 2001:	Cost	Accumulated amortization	Net book value	Amortization expense
Acquisition costs, consisting mainly of professional fees	\$1,471,848	\$1,056,434	\$ 415,414	\$251,092
Non-compete covenants	1,515,316	834,640	680,676	169,031
Debt costs	1,119,914	546,558	573,356	156,191
Prescription lists	1,700,582	258,719	1,441,863	201,174
Other	601,572	254,219	347,353	186,641
Totals	\$6,409,232	\$2,950,570	\$3,458,662	\$964,129

At December 3, 2000:	Cost	Accumulated amortization	Net book value	Amortization expense
Acquisition costs, consisting mainly of professional fees	\$1,471,848	\$ 805,342	\$ 666,506	\$289,344
Non-compete covenants	1,465,316	665,609	799,707	129,926
Debt costs	821,478	390,367	431,111	133,362
Prescription lists	1,198,238	57,546	1,140,692	43,186
Other	414,665	67,577	347,088	34,575
Totals	\$5,371,545	\$1,986,441	\$3,385,104	\$630,393

Estimated total amortization expense for the next five years is as follows:

2002	\$1,253,922
2003	1,122,637
2004	642,256
2005	437,590
2006	85,698

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

Notes to Consolidated Financial Statements

=====

The transition to accounting for intangible assets under Statement 142 effective with the fiscal year ended December 1, 2002 will not result in any material changes to the above items.

5. Due to Affiliate

Amounts due to an affiliate, United Acquisition Corp., a corporation indirectly wholly owned by the majority shareholder, represent liabilities in connection with the consummation of the merger as discussed in Note 1 and additional advances made by the affiliate since the merger. The affiliate has agreed not to demand payment of these liabilities in the next fiscal year. Accordingly, the liability has been classified as noncurrent. As part of post-closing adjustments in connection with the Food Group Acquisition, approximately \$3,600,000 in due from affiliates has been offset against the amounts due to United Acquisition Corp. The net amount due to affiliate at December 2, 2001 and December 3, 2000 was \$15,318,843 and \$12,129,031, respectively. Of these amounts \$12,800,000 and \$9,000,000, respectively was subordinated to the Company's banks. (See Note 8.) 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.

6. Commitments and Contingencies

The Company operates primarily in leased facilities under non-cancellable operating leases expiring at various dates through 2020. Certain leases provide for contingent rents (based upon store sales exceeding stipulated amounts or on the Consumer Price Index), escalation clauses and renewal options ranging from five to fifteen years. The Company is obligated under all leases to pay for taxes, insurance and common area maintenance expenses.

The Company also leases operating equipment. The Company is obligated under all equipment leases to pay for taxes, insurance and maintenance costs incurred in the operation of such equipment.

Rent expense, including taxes, insurance and maintenance costs, under non-cancelable operating

F-20

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

=====

leases, (including leases with related parties), for the fiscal years ended December 2, 2001, December 3, 2000 and November 28, 1999, respectively, is as follows:

	2001	2000	1999
Facilities: Base rents	\$15,805,048	\$13,245,918	\$11,913,291
Contingent rent	48,000	76,671	20,000
Rent expense - facilities	\$15,853,048	\$13,322,589	\$11,933,291
Equipment rental	\$ 644,961	\$ 1,159,178	\$ 1,235,513

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

=====

Related party rent expense for facilities was \$1,610,022, \$1,236,420 and \$636,059 for the years ended December 2, 2001, December 3, 2000 and November 28, 1999, respectively.

Related party rent expense for equipment leases was \$484,856 for each of the years ended December 3, 2000 and November 28, 1999, respectively. By the terms of amendments to these leases, they became capital leases in the year ended December 2, 2001.

Future minimum lease commitments under noncancellable leases as of December 2, 2001 are (\$000s):

F-21

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

=====

Fiscal year ending	Equipment Operating Leases	Facilities--Minimum Commitment
2002	\$188	\$ 13,852
2003	188	13,815
2004	174	13,601
2005	124	13,272
2006	7	13,085
Thereafter	--	74,231
	\$681	\$141,857

The above table includes renewal periods where used to determine depreciable asset life.

The net book value of all assets under capital leases including related party capital leases at December 2, 2001 is approximately \$15.2 million.

The future net minimum lease payments under capital leases are as follows (\$000s):

Fiscal year ending	
2002	\$ 5,043
2003	4,784
2004	3,412
2005	1,441
2006	465
Thereafter	0
	15,145
Less: Amount representing interest	2,146
	12,999
Present value of net minimum lease payments	12,999
Less current obligation	3,950

=====

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

Long term lease obligations \$ 9,049

F-22

Gristede's Foods, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

7. Income Taxes

The Company reports the effects of income taxes under SFAS No. 109, "Accounting for Income Taxes". The objective of income tax reporting is to recognize (a) the amount of taxes payable or refundable for the current year and (b) deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the financial statements or tax returns. Under SFAS No. 109, the measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. Realization of deferred tax assets is determined on a more-likely-than-not basis.

The Company has net operating loss carryforwards for tax purposes and other deferred tax benefits that are available to offset future taxable income. The net operating loss carryforwards are attributable only to operating activities.

As of December 2, 2001, the Company had net operating loss carryforwards of approximately \$8.6 million, which expires through fiscal 2020.

Internal Revenue Code Section 382 provides for the limitation on the use of net operating loss carryforwards in years subsequent to a more than 50% cumulative change in ownership. The Company believes that a more than 50% cumulative change in ownership occurred in November 1997. (See Note 1) As a future consequence of the transaction, the Company's ability to offset its net operating loss carry forwards of approximately \$5.7 million at the merger against income earned after the transaction may be limited. If any of the Federal net operating loss carryforwards are realized, any tax benefit will be credited to additional paid-in capital.

The Company had net deferred tax assets of approximately \$9 million at December 2, 2001 and

F-23

Gristede's Foods, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 3, 2000. At December 2, 2001 and December 3, 2000, a valuation allowance has been provided against the deferred tax assets since management cannot predict, based on the weight of available evidence, that it is more likely than not that such assets will be ultimately realized. Accordingly no deferred income taxes were recognized in any of the periods.

The provision (benefit) for income taxes for fiscal 2001, 2000 and 1999

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

consisted of state and local income taxes only which amounted to approximately \$99,000, \$52,000 and \$22,000, respectively.

Deferred tax (assets) liabilities at December 2, 2001 and December 3, 2000 are comprised of the following elements:

	2001	2000
	=====	=====
Net operating loss carryforwards	\$(4,294,000)	\$(5,295,000)
Deferred revenue taxable currently	(384,000)	(493,000)
Allowance for uncollectable accounts	(207,000)	(75,000)
Depreciation and amortization	(2,595,000)	(1,586,000)
Deferred rent not currently deductible	(1,963,000)	(1,651,000)
	-----	-----
Deferred tax (assets) liabilities, net	(9,443,000)	(9,100,000)
Less valuation allowance	9,443,000	9,100,000
	-----	-----
Net deferred tax	\$ --	\$ --
	=====	=====

F-24

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

=====

8. Debt

Effective October 2001, the Company's 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 December 2, 2001, the 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.

F-25

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

=====

Long-term debt at December 2, 2001 and December 3, 2000 consists of the following:

	2001	2000
	-----	-----
Note payable in annual installments of \$66,667 plus accrued interest commencing September 30, 2000 at an interest rate of 9%	\$ 36,595	\$ 133,333

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

Note payable \$75,000 that was due on January 29, 2001; \$75,000 that was due June 14, 2001, plus accrued interest commencing September 14, 2000 at an interest rate of 9%	150,000	150,000
Term loans payable to banks due December 3, 2006 and November 30, 2003, respectively	15,500,000	14,132,745
Revolving loan payable to bank due November 28, 2004 and November 30, 2003, respectively	9,800,000	14,000,000
	-----	-----
	25,486,595	28,416,078
	-----	-----
Less: Current Portion	2,378,262	6,388,426
	-----	-----
	\$23,108,333	\$22,027,652
	=====	=====

Interest on prime-based loans under the credit facility is payable monthly in arrears; interest on LIBOR-based loans under the credit facility is payable at the end of the applicable interest period.

During the year ended December 2, 2001 the interest rates ranged from 5.19% to 8.58% on the LIBOR-based loans (total principal balance of \$24,800,000 at December 2, 2001) and from 6.25% to 10.75% on the prime-based loans (total principal balance of \$500,000 at December 2, 2001). The overall weighted average interest rate paid to the banks during the year ended December 2, 2001 was 7.73%.

The loans are collateralized by certain assets of the Company, including receivables, inventory and store equipment.

F-26

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

Principal maturities of long-term debt as of December 2, 2001 are as follows:

Fiscal year ending	
-----	-----
2002	\$ 2,378,262
2003	2,325,000
2004	12,425,000
2005	2,925,000
2006	5,433,333
-----	-----
Total maturities	\$25,486,595
-----	-----

9. Retirement Plan

The Company participates in various defined contribution multi-employer union pension plans, which are administered jointly by management and union representatives, and which sponsor most full-time and certain part-time union employees. The pension expense for these plans approximated \$1,052,000, \$999,000

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

and \$740,000 for 2001, 2000 and 1999, respectively. The Company could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans.

10. Stock Option Plans

On October 7, 1994, the Company granted the Chairman a non-qualified stock option to purchase an aggregate of 275,000 shares of common stock at a price of \$3.75 per share (the fair market value at that date).

On August 12, 1996, the Company granted the Chairman a non-qualified stock option to purchase an aggregate of 250,000 shares of common stock at a price of \$2.875 per share.

The Company currently has one incentive grant and five nonqualified grants under which stock options may be granted to officers, directors and key employees of the Company. The options to purchase shares of common stock generally are issued at fair market value on the date of the grant, begin vesting over three to five years, and expire ten years from issuance and are conditioned upon

F-27

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

=====
continual employment during the vesting period.

Under the incentive grant and the nonqualified grants, the Company granted options to purchase up to 927,500 shares of common stock.

In addition to the one incentive grant, the Company has granted stock options to certain key executives and directors. The options vest over three to five years and contractual lives of these grants are similar to that of the incentive plan.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations for its stock option grants. Generally, compensation expense is not recognized for stock option grants.

In accordance with SFAS No. 123, "Accounting for Stock-based Compensation", the Company discloses the pro forma impact of recording compensation expense utilizing the Black-Scholes model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the Black-Scholes model does not necessarily provide a reliable measure of the fair value of its stock options.

SFAS No. 123 requires the Company to provide pro forma information regarding net loss and earnings per share as if compensation cost of the Company's stock option plans had been determined

F-28

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

in accordance with the fair value based method prescribed in SFAS No. 123. The Company estimates the fair value of each stock option at the grant date by using the Black Scholes option-pricing model with the following weighted average assumptions used for grants. During 2000 and 2001 there were no options granted.

	1999
Dividend yield	0%
Risk free interest rate	5%
Expected lives	10 years
Volatility	31%

Under the accounting provisions of SFAS No. 123, the Company's loss and earnings per share would have been adjusted to the pro forma amounts indicated below:

	2001	2000	1999
Loss before cumulative effect of change in accounting principle			
As reported	\$275,057	\$ (190,908)	\$ (2,262,903)
Pro forma	240,487	(310,861)	(2,540,778)
Net earnings (loss) per share - basic and diluted:			
As reported	\$.01	\$ (.01)	\$ (.12)
Pro forma	\$.01	\$ (.02)	\$ (.13)

F-29

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

A summary of the status of the Company's stock option plans is presented below:

	Shares	Weighted Average Exercise Price
Balance, November 29, 1998	1,260,000	\$3.37
Granted:	292,500	2.37
Exercised:	--	--
Forfeited:	(130,000)	2.90
Balance, November 28, 1999	1,422,500	3.21
Granted:	--	--
Exercised:	--	--
Forfeited:	(22,000)	2.90

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

Balance, December 3, 2000	1,400,500	3.21
Granted:	--	--
Exercised:	--	--
Forfeited:	(45,000)	3.33

Balance, December 2, 2001	1,355,500	\$3.21

Options exercisable as of December 2, 2001 and December 3, 2000 were 1,322,167 and 1,143,000, respectively.

All options prior to November 10, 1997 were assumed from Sloan's by the Company. The following table summarizes information as of December 2, 2001 concerning outstanding and exercisable options:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$3.75	275,000	2.9	\$3.75	275,000	\$3.75
5.63	101,000	3.0	5.63	101,000	5.63
3.81	22,000	3.0	3.81	22,000	3.81
2.87	250,000	4.7	2.87	250,000	2.87
5.00	75,000	0.8	5.00	75,000	5.00
2.63	532,500	6.3	2.63	532,500	2.63
1.88	100,000	7.3	1.88	66,667	1.88

\$1.88-5.63	1,355,500	4.8	\$3.21	1,322,167	\$3.21
=====					

F-30

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

11. Litigation

1) RMED International Inc. v. Sloan's Supermarkets Inc. and John A. Catsimatidis.

On August 8, 1994, a lawsuit against the Company and Mr. Catsimatidis was instituted in the United States District Court for the Southern District of New York by RMED International, Inc. ("RMED"), a former stockholder of the Company.

The complaint alleges, among other things, that RMED and a purported class consisting of persons who purchased the Company's common stock on or after March 19, 1993 were damaged by alleged nondisclosures in certain filings made by the Company with the Securities and Exchange Commission between January 1993 and June 1994 relating to an investigation by the FTC. The complaint alleges that

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

such nondisclosures constituted violations of Federal and New York State securities laws, as well as common law fraud, and seeks damages (including punitive damages) in an unspecified amount (although in discovery proceedings, the named plaintiff has claimed that its damages were approximately \$800,000) as well as costs and disbursements of the action. On June 2, 1994, the Company issued a press release that disclosed the FTC action.

On September 30, 1994, the defendants filed a motion to dismiss for failure to state a cause of action and for lack of subject matter jurisdiction over the state claims. The motion was denied. In June 1995, the plaintiff filed a motion for class certification, which motion was granted in March 1996. Fact discovery was completed by the end of June 1998. Expert discovery was completed by the end of 1998. Plaintiff's expert prepared a report claiming that plaintiffs have suffered damages in an amount in excess of \$3,000,000. In August 1999, defendants moved to exclude plaintiff's expert report, which motion was denied. In June 2000, the Company filed a motion for summary judgment. In February 2002, the court dismissed plaintiff's state law claim under Article 23-A of the General Business Law of New York, as well as plaintiff's claim for breach of

F-31

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

=====

fiduciary duty, but denied the Company's motion with respect to the plaintiff's claim under Section 10(b) of the Securities Exchange Act of 1934, as amended and Rule 10(b)-5 promulgated thereunder, as well as plaintiff's claim of fraud under state common law, finding that there were outstanding issues of fact which needed to be determined at trial. Pre-trial conference has been scheduled for March 4, 2002.

At this state of the litigation, the outcome cannot be predicted with certainty. However, the Company believes that it has a viable defense that may result in dismissal of RMED's claims.

2.) Ansoumana v. Great Atlantic & Pacific Tea Company, Inc. d/b/a/ A&P, Shopwell Inc. - d/b/a Food Emporium, Gristede's Operating Corp, Duane Reade, Inc., Charlie Bauer, individually and d/b/a B&B Delivery Service a/k/a Citi Express, Scott Weinstein and Steven Pilavan, ind. and d/b/a Hudson Delivery Service Inc., Chelsea Trucking, Inc. a/k/a Hudson York.

On January 13, 2000 plaintiffs, commenced a class action lawsuit in the U.S District Court for the Southern District of New York. Their complaint alleges violations of the Fair Labor Standards Act and the New York Labor Law. Plaintiffs are claiming damages for the differential between the amount they were paid by The Great American Delivery Service Company and what the minimum wage was in each specific year dating back to 1994. To date, 35 employees have opted into the class action.

Specifically, the Company was one of the parties sued in this litigation by delivery workers claiming they are not being paid the minimum wage. The delivery workers are employees of the Great American Delivery Company (formerly known as B&B Delivery Service or Citi Express), not employees of the Company. The Company is under contract with Great American to deliver groceries to the Company's customers.

In its answer, the Company denied the allegations and

F-32

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements
=====

cross-claimed against the delivery service co-defendants Weinstein and Bauer, based upon their own negligence, theories of contribution and contractual indemnity.

When allegations of underpayment first emerged last summer, the Company, on August 2, 2000, entered into a new contract with Great American. This contract was entered into in order to assure the Company that these delivery men would be properly and legally paid for their services. The legal hourly wages referred to in the contract were discussed with the New York Attorney General's office.

The Company is conducting an investigation of Great American to determine whether or not Great American is in compliance with the contract and the legal options available with respect to the contract terms.

Management expects the matter will be resolved in the near future. The Company will vigorously defend the fact that these workers are employees of Great American, and not employees of the Company.

On July 23, 2001, the Company terminated its Delivery Service Agreement with Great American Delivery Co., Inc. ("Great American") because Great American breached the terms of the contract. Based upon that termination, Great American commenced a breach of contract action in Supreme Court, Nassau County, against the Company and obtained a preliminary injunction compelling the Company to retain Great American as its delivery service contractor.

Thereafter, Great American was found to be in contempt of several orders and added as a party-defendant by motion to amend the complaint in the Ansoumana v. the Company's action. In response to those proceedings, Great American filed for bankruptcy. Hence, the breach of contract action commenced by Great American against the Company was stayed. The Company transferred the case to the United States Bankruptcy Court in the Eastern District of New York and is moving to have the case transferred further to

F-33

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements
=====

the judge assigned to Ansoumana v. Gristede's in the United States District Court of the Southern District of New York. When this is done, the Company will move the Court to have the matter dismissed.

3.) 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

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

Pursuant to a settlement agreement dated February 22, 1999 (the "Settlement Agreement"), between the Company and Rite Aid Corporation ("Rite Aid"), Rite Aid agreed to compromise a dispute between the parties arising out of a written lease purchase agreement dated September 2, 1994 (the "Lease Purchase Agreement"). Pursuant to the Settlement Agreement, Rite Aid agreed to pay the sum of \$400,000 (the "Settlement Sum") to the Company in full and final satisfaction of certain claims and disputes regarding defendants' breaches of the Lease Purchase Agreement. However, to date, Rite Aid has failed and refused to pay any portion of the Settlement Sum as required by the Settlement Agreement. Consequently, on June 5, 2000, plaintiffs filed a complaint in the Supreme Court of the State of New York (New York County) which alleged: Breach of Settlement Agreement, Breach of Good Faith and Fair Dealing and Breach of Lease Purchase Agreement. Such complaint seeks judgment against Rite Aid in the full amount of the Settlement Sum, together with interest from February 22, 1999.

As alleged in the complaint, the Lease Purchase Agreement contemplated defendants' purchase of certain commercial leasehold interests held by plaintiffs, in two stores. Pursuant to the Lease Purchase Agreement, defendants agreed to purchase plaintiffs' leasehold interest in the two stores for \$1,950,000. However, in violation of the Lease Purchase Agreement - as well as their duty of good faith and fair dealing thereunder - defendants negotiated and obtained their own leasehold interest for both stores directly from each landlord, and failed to compensate plaintiffs as agreed.

F-34

Gristede's Foods, Inc.
and Subsidiaries

Notes to Consolidated Financial Statements

=====

To date, no depositions have been taken. At this stage of litigation, it is too early to determine the outcome of the litigation. However, it is the opinion of the Company's counsel that the likelihood of success on the Company's claim for breach of the Settlement Agreement is substantial. A receivable in the amount of \$400,000 from Rite Aid is included in receivables as of December 2, 2001.

12. Impact of the Terrorist Attacks of September 11, 2001

The Company has two stores in the World Trade Center area of Manhattan, which were forced to close as a result of the terrorist attacks of September 11, 2001. One store reopened for business on October 1, 2001, the other is being renovated. The Company has suffered property damage losses, including inventory, costs to repair and clean fixtures and facilities and loss of revenue. Management has filed claims for the above losses with its insurance carriers, including business interruption, and estimates net proceeds of approximately \$1.5 million, along with costs incurred of approximately \$1.1 million. The Company received an advance of \$300,000 against these claims in October 2001. Management believes it is probable that payment will be received for the claim in the upcoming fiscal year.

F-35

Gristede's Foods, Inc.
and Subsidiaries

Edgar Filing: GRISTEDES FOODS INC - Form 10-K

Notes to Consolidated Financial Statements

13. Quarterly Financial Data (Unaudited) (\$000s)

Financial data for the interim periods of Fiscal 2001 and Fiscal 2000 is as follows:

	13 weeks ended March 4, 2001	13 weeks ended June 3, 2001	13 weeks ended September 2, 2001	13 weeks ended December 2, 2001
<hr style="border-top: 1px dashed black;"/>				
Sales	\$59,586	\$56,949	\$ 53,570	\$ 59,883
Gross Profit	23,098	22,731	21,539	23,439
Net Income (loss)	\$ 461	\$ 330	\$ (473)	\$ (43)
Net Income (loss) per share	\$ 0.02	\$ 0.02	\$ (0.02)	\$ (0.00)
<hr style="border-top: 1px dashed black;"/>				
	13 weeks ended February 27, 2000	13 weeks ended May 28, 2000	13 weeks ended August 27, 2000	14 weeks ended December 3, 2000
Sales	\$53,748	\$52,270	\$ 51,334	\$ 58,973
Gross Profit	21,340	20,796	19,792	23,138
Net Income (loss)	\$ 1,006	\$ 396	\$ (942)	\$ (651)
Net Income (loss) per share	\$.05	\$.02	\$ (.05)	\$ (.03)