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GRISTEDES FOODS INC  
Form 10-Q  
April 17, 2002

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 3, 2002

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

For the transition period from .....to .....

Commission File Number 1-7013

GRISTEDE'S FOODS, INC.

-----  
(Exact Name of Registrant as Specified in its Charter)

Delaware

13-1829183

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

823 Eleventh Avenue, New York, New York 10019

-----  
(Address of Principal Executive Offices)

(212) 956-5803

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

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15 (d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

At April 8, 2002, registrant had issued and outstanding 19,636,574 shares of common stock.

GRISTEDE'S FOODS, INC. AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

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Item 1  
Financial Statements

GRISTEDE'S FOODS, INC.  
CONSOLIDATED BALANCE SHEETS

	(Unaud March 20 =====
ASSETS	
CURRENT ASSETS:	
Cash	\$ 5
Accounts receivable - net of allowance for doubtful accounts of \$441,000 at March 3, 2002 and \$413,000 at December 2, 2001	6,9
Inventory	32,5
Due from related parties - trade	1,2
Prepaid expenses and other current assets	1,6
	-----
Total current assets	42,9
	-----
PROPERTY AND EQUIPMENT:	
Furniture, fixtures and equipment	18,7
Capitalized equipment leases	23,9
Leaseholds and leasehold improvements	53,9
	-----
Less accumulated depreciation and amortization	96,7
	43,0
	-----

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Net property and equipment	53,6
Deposits and other assets	1,0
Other assets	3,0
	-----
TOTAL	\$ 100,7
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable, trade	\$ 23,9
Accrued payroll, vacation and withholdings	2,3
Accrued expenses and other current liabilities	2,0
Capitalized lease obligation - current portion	4,0
Current portion of long term debt	2,7
	-----
Total current liabilities	35,0
Long-term debt - noncurrent portion	25,4
Due to affiliates	15,4
Capitalized lease obligation - noncurrent portion	8,0
Deferred rent	4,4
	-----
Total liabilities	88,3
	-----
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Preferred stock, \$50 Par, - share authorized 500,000; none issued	
Common stock, \$0.02 par value - shares authorized 25,000,000; outstanding 19,636,574 shares at March 3, 2002 and December 2, 2001	3
Additional paid-in capital	14,1
Retained earnings/ (deficit)	(2,1)
	-----
Total stockholders' equity	12,3
	-----
TOTAL	\$ 100,7
	=====

See notes to consolidated financial statements (unaudited).

GRISTEDE'S FOODS, INC.  
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE 13 WEEKS ENDED MARCH 3, 2002 AND MARCH 4, 2001

13 weeks  
ended  
March 3,

13 weeks  
ended  
March 4,

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	2002 =====	2001 =====
Sales	\$ 59,790,660	\$ 59,586,146
Cost of sales	36,029,545 -----	36,488,204 -----
Gross profit	23,761,115	23,097,942
Store operating, general and administrative expenses	18,140,022	18,061,742
Pre-store opening startup costs	0	66,000
Depreciation and amortization	1,908,654	1,683,734
Insurance proceeds - terrorist attack	(100,000)	
Non-store operating expenses:		
Administrative payroll and fringes	1,626,469	1,247,632
General office expense	511,089	609,919
Professional fees	124,807	146,367
Corporate expense	55,174 -----	43,992 -----
Total non-store operating expenses	2,317,539 -----	2,047,910 -----
Operating income	1,494,900 -----	1,238,556 -----
Other income (expense):		
Interest expense	(711,829)	(957,007)
Interest income	2,914	4,670
Other income	0 -----	184,953 -----
Total other income (expense) - net	(708,915) -----	(767,384) -----
Income before income taxes	785,985	471,172
Provision for income taxes	25,000 -----	10,000 -----
Net income	\$ 760,985 =====	\$ 461,172 =====
Net income per share; basic and diluted	\$ 0.04 =====	\$ 0.02 =====
Weighted average number of shares and equivalents outstanding	19,636,574 =====	19,636,574 =====

See notes to consolidated financial statements (unaudited).

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GRISTEDE'S FOODS, INC.  
 UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 FOR THE YEAR ENDED DECEMBER 2, 2001  
 AND FOR THE QUARTER ENDED MARCH 3, 2002

	Common stock Shares =====	Amount =====	Additional Paid-In Capital =====	Retained earnings (Deficit) =====
Balance at December 3, 2000	19,636,574	\$392,732	\$14,136,674	\$(3,211,962)
Net income for the year ended December 2, 2001	-----	-----	-----	275,057
Balance at December 2, 2001	19,636,574	\$392,732	\$14,136,674	\$(2,936,905)
Net income for the quarter ended March 3, 2002	-----	-----	-----	760,985
Balance at March 3, 2002	19,636,574 =====	\$392,732 =====	\$14,136,674 =====	\$(2,175,920) =====

See notes to consolidated financial statements (unaudited).

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GRISTEDE'S FOODS, INC.  
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE QUARTERS ENDED MARCH 3, 2002 AND MARCH 4, 2001

	13 weeks ended March 3, 2002 =====	13 weeks ended March 4, 2001 =====
Cash flows from operating activities:		
Net income	\$ 760,985	\$ 461,172
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,908,653	1,683,734
Change in allowance for bad debts	28,405	18,000
Gain on sale of store		(192,177)
Changes in operating assets and liabilities:		
Accounts receivable	(308,586)	(338,556)
Inventory	(192,227)	571,505
Due from related parties - trade	(152,790)	(304,171)

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Prepaid expenses and other current assets	605,035	455,774
Other assets	(110,200)	(97,088)
Accounts payable, trade	(3,054,371)	(1,865,018)
Accrued payroll, vacation and withholdings	(112,182)	(38,436)
Accrued expenses and other current liabilities	(45,229)	(740,335)
Deferred rent	180,396	202,800
	-----	-----
Net cash used in operating activities	(492,111)	(182,796)
	-----	-----
Cash flows from investing activities:		
Proceeds from sale of store		225,000
Capital expenditures	(1,308,697)	(1,519,029)
	-----	-----
Net cash used in investing activities	(1,308,697)	(1,294,029)
	-----	-----
Cash flows from financing activities:		
Repayments of bank loan	(230,769)	(700,000)
Proceeds from bank loans	2,900,000	0
Repayment capitalized lease obligations	(952,321)	(658,308)
Advances from affiliates	158,903	2,872,607
	-----	-----
Net cash provided by financing activities	1,875,813	1,514,299
	-----	-----
Net Increase in Cash	75,005	37,474
Cash, beginning of period	475,873	412,408
	-----	-----
Cash, end of period	\$ 550,878	\$ 449,882
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 916,782	\$ 973,224
Cash paid (refunded) for taxes	\$ (46,481)	\$ 63,632
Supplemental schedule of non cash financing activity:		
Assets acquired under capital lease obligations	\$ 0	\$ 805,198

See notes to consolidated financial statements (unaudited).

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business - On August 12, 1999, the Company changed its name to Gristede's Foods, Inc. ("GRI" or the "Company"). On November 10, 1997, GRI acquired certain assets, net of liabilities, of 29 selected supermarkets and a wholesale distribution business ("The Food Group") controlled by Mr. John Catsimatidis,

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Chairman and 37% stockholder of a predecessor company, Sloan's Supermarkets, Inc. ("Sloan's"). 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 were recorded at their historical cost. Sloan's assets and liabilities were recorded at their fair value to the extent acquired. Consideration for the transaction was based on an aggregate of \$36,000,000 in market value of the Company's common stock and the assumption of \$4,000,000 of liabilities. 16,504,298 shares of common stock were issued on the date of the acquisition based on a market price of \$2.18 per share.

The Company operates 42 supermarkets (the "Supermarkets") and two pharmacy stores. 37 Supermarkets and two pharmacy stores 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.

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

Basis of presentation - The unaudited consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, the information furnished reflects all adjustments (consisting of normal recurring adjustments), which are necessary for a fair statement of the results of operations and financial position of the Company for the interim period. The interim figures are not necessarily indicative of the results to be expected for the fiscal year.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Quarter End - The Company operates using the conventional retail 52/53-week fiscal year. The fiscal quarter ends on the Sunday closest to the end of the quarter. The Company's fiscal year ends on the Sunday closest to November 30.

Inventory - Store inventories are valued principally at the lower of cost or market with cost determined under the retail first in, first out (FIFO) method.

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

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

Provision for income taxes - Income taxes reflect Federal and State alternative minimum tax only, as all regular income taxes have been offset by utilization of the Company's net operating loss carry forward.

Income per share - Per share data are based on the weighted average number of shares of common stock and equivalents outstanding during each quarter. Income per share is computed by the treasury stock method; basic and diluted income per

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share are the same.

The Company's Annual Report on Form 10-K for the 12 month period ended December 2, 2001 contains information which should be read in conjunction herewith.

### 2. RELATED PARTY TRANSACTIONS

Certain stores have entered into capital and operating leases with an affiliate, Red Apple Lease Corp. , a company wholly owned by the majority shareholder. Such leases are primarily for store operating equipment. Obligations under capital leases at March 3, 2002 were \$1,212,482 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.

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 March 3, 2002 were \$1,501,427 and require monthly payments of \$34,813 through November 2006.

The Company leases the following locations: a 25,000 square foot warehouse, its office facilities and five store locations from affiliates. During the quarter ended March 3, 2002 the Company paid to such affiliates \$464,450 for rent and real estate taxes under such leases. The leases are triple net whereby the tenant pays all real estate taxes, insurance and maintenance.

Amounts due to affiliates are primarily to United Acquisition Corp., a corporation wholly owned by John Catsimatidis, and represent liabilities in connection with the consummation of the merger, as discussed in Item 13 to the Form 10-K for the year ended December 2, 2001, and additional advances made by the affiliates since the merger. The affiliates have 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 affiliates. The net amount due to affiliates at March 3, 2002 was \$15,477,746; of this amount \$12,800,000 was subordinated to the Company's banks. The liability presently does not bear interest. However, the Company's credit agreement with its banks permits the Company to pay interest on such subordinated debt provided the Company has a positive net income.

Due from related parties - trade, represents amounts due from affiliated companies for merchandise shipped from the Company's subsidiary City Produce Operating Corp. in the ordinary course of business and for which payments are made to such subsidiary on a continuous basis under extended terms, as well as management fees receivable for administrative and managerial services performed for the affiliated companies by the Company. During the quarters ended March 3, 2002, and March 4, 2001, merchandise sales to affiliates were \$314,196 and \$675,423, respectively.

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 will 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 will 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.

### 3. LITIGATION

Reference is made to Item 3 contained in the Company's Annual Report on Form 10-K for the year ended December 2, 2001 to the matter captioned: *Ansoumana v. various defendants*. The action brought by Great American in Nassau County was transferred to the Eastern District of New York. The bankruptcy petition previously filed by Great American and Baur, two of the defendants in this action, was dismissed.

Reference is also made to Item 3 contained in the Company's Annual Report on Form 10-K for the year ended December 2, 2001 to the matter captioned: *RMED International Inc. v. Sloan's Supermarkets Inc. and John A. Catsimatidis.*:

Defendants have filed a motion to reargue the Court's decision as to the counts not dismissed on summary judgment. This motion is currently pending before the Court.

### 4. 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. Management believes it is probable that payment

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will be received for the claims in the upcoming fiscal year. The Company received an advance of \$300,000 against these claims in October 2001.

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### GRISTEDE'S FOODS, INC. AND SUBSIDIARIES

#### PART I

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE QUARTERS ENDED MARCH 3, 2002 AND MARCH 4, 2001

##### RESULTS OF OPERATIONS

The following table sets forth items from the Company's Consolidated Statements of Operations as a percentage on sales.

	13 weeks ended 3/3/02 -----	13 weeks ended 3/4/01 -----
Sales	100.0%	100.0%
Cost of sales	60.3 -----	61.2 -----
Gross profit	39.7	38.8
Store operating, general and administrative expenses	30.3	30.3
Pre-store opening startup costs	--	0.1
Depreciation and amortization	3.2	2.8
Insurance proceeds - terrorist attack	0.2	--
Non-store operating expenses	3.9 -----	3.4 -----
Operating income	2.5	2.1
Other income (expense)	(1.2) -----	(1.3) -----
Income from operations before income taxes	1.3	0.8
Provisions for income taxes	0.0 -----	0.0 -----
Net income	1.3% -----	0.8% -----

Sales for the quarter ended March 3, 2002 were \$59,790,660 as compared to sales for the quarter ended March 4, 2001 of \$59,586,146. The Company had four stores temporarily closed during the quarter ended March 3, 2002. Three stores were closed for renovation and one store was closed due to the September 11, 2001 attack on America.

Of the stores closed for renovation, two stores re-opened in the second quarter and the third is expected to re-open later this year. The store closed due to the September 11, 2001 attacks is expected to re-open during May 2002.

Had these stores been open during the quarter ended March 3, 2002, sales would have been higher.

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Same store sales increased 3.7% during the 2002 period compared to the 2001 period (4.8% excluding the effect of a snowstorm in the 2001 period).

Gross profit was \$23,761,115 or 39.7% of sales for the quarter ended March 3, 2002 as compared with \$23,097,942 or 38.8% of sales for the quarter ended March 4, 2001. The increase in gross profit as a percentage of sales, during the 2002 period was primarily due to the absence of any store grand re-openings during the 2002 period, negating the need for

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promotional pricing. During fiscal 2001 the Company had several grand re-openings, which resulted in improved margins for the 2002 quarter from newly enlarged perishable departments.

Store operating, general and administrative expenses was \$18,140,022 or 30.3% of sales for the quarter ended March 3, 2002 as compared with \$18,061,742 or 30.3% of sales for the quarter ended March 4, 2001. Store operating, general and administrative expenses as a percentage of sales were unchanged in the 2002 and 2001 periods mainly due to effective cost controls.

Pre-store opening startup costs were \$0 for the quarter ended March 3, 2002 as compared with \$66,000 or 0.1% of sales for the quarter ended March 4, 2001. No remodeled or new stores were opened in the 2002 quarter.

Non-store operating expenses were \$2,317,539 or 3.9% of sales for the quarter ended March 3, 2002 as compared with \$2,047,910 or 3.4% of sales for the quarter ended March 4, 2001. Administrative payroll and fringes were 2.7% of sales for the quarter ended March 3, 2002 as compared with 2.1% of sales for the quarter ended March 4, 2001. The change in the 2002 period as a percent of sales reflects the utilization of the Company's internal construction and maintenance personnel for increased maintenance duties as compared to the 2001 period. The Company experienced higher levels of fringe benefits during the 2002 period due to somewhat higher administrative salaries and higher costs of health care benefits. General office expenses were 0.9% of sales for the quarter ended March 3, 2002 as compared 1.0% of sales for the quarter ended March 4, 2001. Professional fees were 0.2% of sales for both the quarter ended March 3, 2002 and for the quarter ended March 4, 2001. Corporate expenses were 0.1% of sales for both the quarter ended March 3, 2002 and for the quarter ended March 4, 2001.

Depreciation expense was \$1,908,654 or 3.2% of sales for 2002, versus \$1,683,734 or 2.8% of sales for 2001. The increase in depreciation expense was primarily the result of significant capital expenditures incurred in connection with the Company's store renovation and remodeling program.

Interest expense was \$711,829 or 1.2% of sales for the quarter ended March 3, 2002 as compared with \$957,007 or 1.6% of sales for the quarter ended March 4, 2001. The decrease in the 2002 period was primarily attributable to lower interest rates, partially offset by increased borrowings under capital leases for equipment financing.

Other income was \$0 for the quarter ended March 3, 2002 as compared with \$184,953 or 0.3% of sales for the quarter ended March 4, 2001 (attributable to the closure of a store and the sale of its lease in January 2001).

As a result of the items reviewed above, net income before provision for income taxes for the quarter ended March 3, 2002 was \$785,985, as compared to \$471,172 for the quarter ended March 4, 2001.

Liquidity and Capital Resources

Liquidity:

The consolidated financial statements of the Company indicate that at March 3, 2002 current assets exceed current liabilities by \$7,940,942 and stockholders' equity was \$12,353,486. 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 March 3, 2002, 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.

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 quarter ended March 3, 2002 was 5.2% 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 \$15.4 million through March 3, 2002, in the form of unsecured non-interest bearing demand loans, with \$12.8 million subordinated to its banks. The liability presently does not bear interest. However, the Company's credit agreement with its banks permits the Company to pay interest on such subordinated debt provided the Company has a positive net income.

The Company has available approximately \$3.2 million 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 the quarter ended March 3, 2002, including property acquired under capital leases, were \$1.3 million compared to \$2.3 million for the quarter ended March 4, 2001.

The Company has not incurred any material commitments for capital

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expenditures, although it anticipates spending approximately \$8 million to \$10 million on its store remodeling and expansion program in fiscal 2002. Such amount is subject to adjustment based on the availability of funds.

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### Cash Flows:

Cash used in operating activities amounted to \$492,111 in the quarter ended March 3, 2002 compared to \$182,796 in the quarter ended March 4, 2001. The change in cash flow from operating activities was primarily due to cash used in reducing accounts payable and provided by operating assets and liabilities and a net profit. Net cash used for investing activities was \$1.3 million in 2002 compared to \$1.3 million in 2001, (net of proceeds from a store closed in January 2001.). Cash provided by financing activities was \$1.9 million in 2002 compared with \$1.5 million in 2001 reflecting the bank financing drawn upon in 2002, 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 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.

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Forward-looking information:

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

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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. A more detailed description of some of the risk factors is set forth in the Company's Annual Report on Form 10-K, dated December 2, 2001.

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### GRISTEDE'S FOODS INC. AND SUBSIDIARIES

#### PART II - OTHER INFORMATION

- Item 1. Legal Proceedings  
None.
- Item 2. Change in Securities And Use of Proceeds  
None.
- Item 3. Defaults Upon Senior Securities  
None.
- Item 4. Submission of Matters to a Vote of Security Holders  
None.
- Item 5. Other Information  
None.
- Item 6. Exhibits and Reports on Form 8-K

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(a) Exhibits

None.

(b) No Current Reports on Form 8-K were filed for the quarter for which this report is being filed.

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SIGNATURES

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

Gristede's Foods, Inc.

By: /s/ John A. Catsimatidis

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

Dated: April 17, 2002

By: /s/ Gary Pokrassa

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Gary Pokrassa  
Chief Financial Officer

Dated: April 17, 2002

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