GRISTEDES FOODS INC
Form 10-Q
July 27, 2001

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 3, 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 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 |X| No |_|

At July 23, 2001, 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.
UNAUDITED CONSOLIDATED BALANCE SHEETS

ASSETS	June 3, 2001
CURRENT ASSETS:	
Cash	$ 437,274
Accounts receivable - net of allowance for doubtful accounts of $186,640 at June 3, 2001 and $150,000 at December 3, 2000	5,832,903
Inventory	31,245,794
Due from related parties - trade	1,227,704
Due from related parties - other	0
Prepaid expenses and other current assets	1,469,309
Total current assets	40,212,984
PROPERTY AND EQUIPMENT:	
Furniture, fixtures and equipment	17,221,654
Capitalized equipment leases	19,736,493
Leaseholds and leasehold improvements	50,177,503

	87,135,650
Less accumulated depreciation and amortization	37,876,536
Net property and equipment	49,259,114
Deposits and other assets	979,534
Other assets	3,577,736
TOTAL	$ 94,029,368
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable, trade	$ 25,426,833
Accrued payroll, vacation and withholdings	1,621,825
Accrued expenses and other current liabilities	513,552
Capitalized lease obligation - current portion	2,644,637
Current portion of long term debt	9,645,235
Total current liabilities	39,852,082
Long-term debt - noncurrent portion	17,570,843
Due to affiliates	12,802,411
Capitalized lease obligation - noncurrent portion	8,129,184
Rent leveling liability	3,565,809
Total liabilities	81,920,329
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Preferred stock, $50 Par, -share authorized 500,000; none issued	0
Common stock, $0.02 par value - shares authorized 25,000,000; outstanding 19,636,574 shares at June 3, 2001 and December 3, 2000	392,732
Additional paid-in capital	14,136,674
Retained earnings/ (deficit)	(2,420,367)
Total stockholders' equity	12,109,039
TOTAL	$ 94,029,368

See accompanying notes.

GRISTEDE'S FOODS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE 26 WEEKS AND 13 WEEKS ENDED JUNE 3, 2001 AND MAY 28, 2000

	26 weeks ended June 3, 2001	13 weeks ended June 3, 2001	26 en May 2
Sales	$ 116,834,076	$ 56,949,260	$ 106,
Cost of sales	71,005,520	34,218,645	63,
Gross profit	45,828,556	22,730,615	42,
Store operating, general and administrative expenses	35,744,501	17,606,797	32,
Pre-store opening startup costs	132,000	66,000	
Depreciation and amortization	3,323,468	1,639,735	2,
Non-store operating expenses:			
Administrative payroll and fringes	2,509,429	1,261,798	2,
General office expense	1,182,955	648,998	
Professional fees	354,227	207,860	
Corporate expense	89,033	45,041	
Total non-store operating expense	4,135,644	2,163,697	3,
Operating income	2,492,943	1,254,386	3,
Other income (expense):			
Interest expense	(1,869,793)	(912,786)	(1,
Interest income	7,305	2,635	
Other income	181,140	(3,813)	
Total other expense - net	(1,681,348)	(913,964)	(1,
Income before income taxes	811,595	340,422	1,
Provision for income taxes	20,000	10,000	
Net income	$ 791,595	$ 330,422	$ 1,
Income per share, basic and diluted	$ 0.04	$ 0.02	$
Weighted average number of shares and equivalents outstanding	19,636,574	19,636,574	19,

See accompanying notes

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GRISTEDE'S FOODS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 3, 2000
AND FOR THE SIX MONTHS ENDED JUNE 3, 2001

	Common stock Shares	Common stock Amount	Additional Paid-In Capital	Retained earnings (Deficit)	T Stock E
Balance at November 28, 1999	19,636,574	$ 392,732	$14,136,674	$(3,021,054)	$11,
Net loss for the year ended December 3, 2000				(190,908)	(
Balance at December 3, 2000	19,636,574	$ 392,732	$14,136,674	$(3,211,962)	$11,
Net income for the six months ended June 3, 2001				791,595	
Balance at June 3, 2001	19,636,574	$ 392,732	$14,136,674	$(2,420,367)	$12,

See accompanying notes.

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GRISTEDE'S FOODS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 3, 2001 AND MAY 28, 2000

	26 weeks ended June 3, 2001	26 w en May 2
Cash flows from operating activities:		
Net income	$ 791,595	$ 1,4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,323,468	2,6
Change in allowance for bad debts	36,640	
Gain on sale of store	(192,177)	
Changes in operating assets and liabilities:		
Accounts receivable	994,786	(

Inventory	(1,140,839)	(2,6
Notes receivable	0	5
Due from related parties - trade	(348,704)	
Prepaid expenses and other current assets	1,019,027	5
Other assets	(620,882)	(2
Accounts payable, trade	(1,529,565)	1
Accrued payroll, vacation and withholdings	(775,768)	(4
Accrued expenses and other current liabilities	(829,583)	1
Accrued rent leveling	264,016	3
Other credits	0	(3
Net cash provided by operating activities	992,014	1,9
Cash flows from investing activities:		
Proceeds from sale of store	225,000	
Capital expenditures	(2,463,463)	(4,2
Net cash used in investing activities	(2,238,463)	(4,2
Cash flows from financing activities:		
Repayments of bank loan	(1,200,000)	(6
Proceeds from bank loans	0	8
Repayment capitalized lease obligations	(1,274,066)	(9
Advances from affiliates	3,745,381	2,9
Net cash provided by financing activities	1,271,315	2,2
NET INCREASE (DECREASE) IN CASH	24,866	(
CASH, begining of period	412,408	2
CASH, end of period	$ 437,274	$ 2
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 2,120,919	$ 1,4
Cash paid for taxes	$ 57,312	$
Supplemental schedule of non cash financing activity:		
Assets acquired under capitalized lease obligations	$ 1,463,588	$ 1,8

See accompanying notes.

GRISTEDE'S FOODS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business - On November 4, 1997, Sloan's Supermarkets, Inc. ("Sloan's") changed its name to Gristede's Sloan's, 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, Chairman and 37% stockholder of 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. On August 16, 1999 the Company changed its name to Gristede's Foods, Inc.

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. Three of the Supermarkets are operated under the "Sloan's" name and 39 are operated under the "Gristede's" name. The Company leases all of its store locations.

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.

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

Leases - 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.

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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 for the interim period. The interim figures are not necessarily indicative of the results to be expected for the fiscal year.

The Company's Annual Report on Form 10-K for the 12 month period ended December 3, 2000 contains information which should be read in conjunction herewith.

2. RELATED PARTY TRANSACTIONS

Under a management agreement dated November 10, 1997, Namdor Inc., a subsidiary of the Company, performs consulting and managerial services for one supermarket owned by a corporation controlled by John Catsimatidis. In consideration of such services, Namdor Inc. is entitled to receive on a quarterly basis a management fee of 1.25% of all sales of merchandise made at the managed supermarket. During the six months and the quarter ended June 3, 2001, respectively, the management fee income was $23,705 and $11,721. For the six months and the quarter ended May 28, 2000, respectively, the management fee income was $43,267 and $19,291. During the 2000 period there were two additional stores included in this agreement, one of which has since closed and another which has been contributed to the Company and is now included in the Company's operations.

C&S Acquisition Corp. (formerly Red Apple Leasing, Inc.) a corporation wholly owned by John Catsimatidis, leases equipment to the Company. Such leases are primarily for store operating equipment. There were no obligations under capital leases remaining at June 3, 2001, which previously required monthly payments of $35,114 through March 1, 2001. Obligations under operating leases were $41,676 per month during the six months ended June 3, 2001.

Advertising services are provided to the Company by an affiliated company, MCV Advertising Associates Inc., a company owned by John Catsimatidis. For the six months and the quarter ended June 3, 2001, respectively, the costs were $20,448. For the six months and the quarter ended May

28, 2000, respectively, the costs incurred were $763,967 and $388,865. During the quarter ended March 4, 2001, the Company began dealing directly with various media and no longer utilizes MCV Advertising Associates Inc.

The Company leases a 25,000 square foot warehouse, its office facilities, four supermarket locations and a pharmacy contained within a supermarket from Red Apple Real Estate, Inc., a company solely owned by John Catsimatidis. For the six months and the quarter ended June 3, 2001 the Company paid to Red Apple Real Estate, Inc. $774,122 and $390,672 for rent under such leases. For the six months and the quarter ended May 28, 2000, respectively, the rent was $579,858 and $272,000 for three locations. The lease terms provide for an aggregate of $1,562,000 per year in lease payments. The leases are triple net whereby the tenant pays all real estate taxes and maintenance.

Wolf, Block, Schorr and Solis-Cohen LLP, a law firm of which Martin Bring, a director of the Company, is a partner, charged fees of approximately $27,300 and $18,100, respectively, for rendering legal services to the Company during the six months and the quarter ended June 3, 2001. For the six months and the

quarter ended May 28, 2000, respectively, the fees were $145,419 and $92,561.

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 3, 2000, 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 June 3, 2001 and December 3, 2000 was $12,802,411 and $12,129,031, respectively; of these amounts $9,000,000 was subordinated to the Company's banks. The liability does not bear interest.

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, as well as management fees receivable for administrative and managerial services performed for the affiliated companies by the Company. For the six months and the quarter ended June 3, 2001, merchandise sales to affiliates were approximately $1,081,000 and $406,000, 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 John Catsimatidis. On March 1, 2000 the Company and the affiliate determined to restructure the transaction by rescinding the purchase effective as 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 terminates on December 2, 2001, 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 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 $1 per annum, plus such other consideration as may be approved by the Company's directors (excluding John Catsimatidis). The operating agreement terminates on May 10, 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. 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.

During fiscal 1999 Mr. John Catsimatidis issued a limited $600,000 guarantee of the collection of all accounts receivable acquired pursuant to the Food Group acquisition and agreed not to permit the level of the Company's liability due to the affiliate to fall below $600,000, prior to the issuance of the fiscal year ended December 3, 2000 audited financial statements. In fiscal 2000 such limited guarantee and commitment regarding the level of the Company's liability to the affiliate was extended until prior to the issuance of the fiscal year ending December 2, 2001 audited financial statements, in the amount of $700,000.

3. LITIGATION

Reference is made to Item 3 (2) contained in the Company's Annual Report on Form 10-K for the year ended December 3, 2000 to the matter captioned: Ansoumana v. various defendants. On April 2, 2001, The Court certified a Rule 23(b)(3) class, with no sub-classes. This certification is on appeal before the Second Circuit Court of Appeals. To date, approximately 60 employees of The Great American Delivery Service Company have opted into the class action. 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.

GRISTEDE'S FOODS, INC. AND SUBSIDIARIES

PART I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX MONTHS AND THE QUARTERS ENDED JUNE 3, 2001 AND MAY 28, 2000

RESULTS OF OPERATIONS

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

	26 weeks ended 6/3/01	13 weeks ended 6/3/01	26 weeks ended 5/28/00	13 weeks ended 5/28/00
Sales	100.0	100.0	100.0	100.0
Cost of sales	60.8	60.1	60.3	60.2
Gross profit	39.2	39.9	39.7	39.8
Store operating, general and administrative expenses	30.6	30.9	30.7	31.1
Pre-store opening startup costs	0.1	0.1	0.4	0.3
Depreciation and amortization	2.9	2.9	2.5	2.7
Non-store operating expense	3.5	3.8	3.1	3.2
Operating income	2.1	2.2	3.0	2.5

Other income (expense)	-1.4	-1.6	-1.7	-1.7
Income from operations before income taxes	0.7	0.6	1.3	0.8
Provisions for income taxes	0.0	0.0	0.0	0.0
Net income	0.7	0.6	1.3	0.8

Sales for the six months and for the quarter ended June 3, 2001 were $116,834,076 and $56,949,260, respectively, as compared to sales for the six months and for the quarter ended May 28, 2000 of $106,017,817 and $52,269,920, respectively. The increase in sales during the 2001 periods was primarily the result of the Company's remodeling program, which is continuing and two new stores which opened subsequent to the 2000 period.

Gross profit for the six months and for the quarter ended June 3, 2001 were $45,828,556 and $22,730,615, respectively, or 39.2% and 39.9% of sales, respectively, as compared with $42,136,175 and $20,796,357, respectively, or 39.7% and

39.8% of sales for the six months and for the quarter ended May 28, 2000. The decrease in gross profit as a percentage of sales, during the 2001 six-month period, was primarily due to the recovery of certain stores in the 2000 period from unusually low gross margins during the fourth quarter of fiscal 1999, which resulted in above normal margins during the 2000 first quarter.

Store operating, general and administrative expenses for the six months and for the quarter ended June 3, 2001 were $35,744,501 and $17,606,797, respectively, or 30.6% and 30.9% of sales, respectively, as compared with $32,516,371 and $16,256,185, respectively, or 30.7% and 31.1% of sales for the six months and for the quarter ended May 28, 2000. Store operating, general and administrative expenses as a percentage of sales were marginally lower in the 2001 period as compared to the 2000 period mainly due to lower labor costs as a percentage of sales, lower advertising expense and equipment rentals converted to capitalized leases, offset by substantially greater electric costs in our trading area.

Pre-store opening startup costs for the six months and for the quarter ended June 3, 2001 were $132,000 and $66,000, respectively, or 0.1% and 0.1% of sales, as compared with $422,223 and $138,890 or 0.4% and 0.3% of sales for the six months and for the quarter ended May 28, 2000. The decrease in pre-store opening startup costs in the 2001 periods was due to the fact that fewer stores were remodeled or new stores opened as compared to the same period in 2000. The stores remodeled required less pre-opening advertising and store set-up labor costs.

Non-store operating expenses for the six months and for the quarter ended June 3, 2001 were $4,135,644 and $2,163,697 respectively, or 3.5% and 3.8% of sales, as compared with $3,328,368 and $1,687,724 or 3.1% and 3.2% of sales for the six months and for the quarter ended May 28, 2000. Administrative payroll and fringes were 2.1% and 2.2% of sales for the six months and for the quarter ended June 3, 2001 as compared with 2.1% of sales for the six months and for the quarter ended May 28, 2000. General office expenses were 1.0% and 1.1% of sales for the six months and for the quarter ended June 3, 2001 as compared with 0.7% of sales for the six months and for the quarter ended May 28, 2000. The increase during the 2001 period was primarily due to additional back office costs in relation to the increased sales. Professional fees were 0.3% and 0.4% of sales for the six months and for the quarter ended June 3, 2001 as compared with 0.3%

of sales for the six months and for the quarter ended May 28, 2000. Corporate expenses were 0.1% of sales for the six months and for the quarter ended June 3, 2001 and for the six months and for the quarter ended May 28, 2000.

Interest expense was $1,869,793 and $912,786 or 1.6% of sales for the six months and for the quarter ended June 3, 2001 as compared with $1,803,302 and $917,116 or 1.7% and 1.8% of sales for the six months and for the quarter ended May 28, 2000. The increase in the 2001 six month period was primarily attributable to increased borrowings under capital leases for equipment financing, partially offset by lower interest rates.

Other income was $181,140 and ($3,813) or 0.2% and 0.0% of sales for the six months and for the quarter ended June 3, 2001 as compared with $0 for the six months and for the quarter ended June 3, 2001. This was attributable to the closure of a store and the sale of its lease in the 2001 period.

As a result of the items reviewed above the net income before provision for income taxes for the six months and for the quarter ended June 3, 2001 was $811,595 and $340,422, as compared to $1,415,430 and $402,554 for the six months and for the quarter ended May 28, 2000.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity:

The consolidated financial statements of the Company indicate that at June 3, 2001 current assets exceed current liabilities by $360,902 and stockholders' equity was $12,109,039. Management believes that cash flows generated from operations, supplemented by financing from 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:

On November 10, 1997, the Company completed its financial arrangements with a group of banks for a credit facility in the aggregate amount of $25,000,000. Under the credit agreement the Company obtained a term loan in the amount of $12,000,000 to refinance prior bank debt, an improvement term loan line of credit in the amount of $8,000,000 to finance capital improvements to its Supermarkets and a revolving line of credit in the amount of $5,000,000 to provide working capital. Subsequently, the banks amended the credit facility to (i) extend its maturity date until November 30, 2003, (ii) change certain financial covenants, and (iii) change the amortization of the term loan and the improvement term loans, and increased the revolving credit facility to $14,000,000 all as follows: at fiscal year end December 3, 2000, the term loan amortizes at $142,857 per month, with the balance due at maturity; the improvement term loan amortizes $0 during December, 2000, $262,500 during January 2001, $137,500 during February, 2001, $50,000 per month commencing March 1, 2001 through and including June 1, 2001 and $133,333 per month thereafter, with the balance due at maturity; the revolving credit commitment reduces by $466,667 per month commencing July 1, 2001.

Presently, the bank facilities are fully utilized and the Company is negotiating an increase in the credit facilities with its banks. There is no assurance that the Company will be able to negotiate such an increase on terms satisfactory to the Company. If the Company is unable to obtain its desired financing from its banks, the Company will seek increased financing from third party leasing

companies and/or additional financing from the Company's majority shareholder and other sources.

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 six months and the quarter ended June 3, 2001 was 8.87% and 8.22% per annum, respectively.

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 $12,800,000 through June 3, 2001, in the form of assumed liabilities and unsecured non-interest bearing demand loans, with $9,000,000 subordinated to its banks.

Capital Expenditures:

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 2001. Such amount is subject to adjustment based on the availability of funds.

Cash Flows:

Cash provided by operating activities amounted to $1.0 million in fiscal 2001 compared to $2.0 million in the prior year. The change in cash flow from operating activities was primarily due to cash provided by operating assets and liabilities and a smaller net income. Cash used for investing activities was $2.2 million in 2001 compared to $4.2 million in 2000, resulting from reduced capital expenditures. Cash provided by financing acitivities was $1.3 million in 2001 compared with $2.2 million in 2000 reflecting the bank financing drawn upon in 2000, the additional proceeds provided by an affiliate, offset by repayments of bank loans and capital leases. Presently, the bank facilities are fully utilized and the Company is negotiating an increase in the credit facilities with its banks.

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 is not expected to materially affect the financial statements of the Company.

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

(a) Exhibits

None.

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

SIGNATURES

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

Gristede's Foods, Inc.

By: /s/ John A. Catsimatidis

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

Dated: July 27, 2001

By: /s/ Gary Pokrassa

Gary Pokrassa
Chief Financial Officer

Dated: July 27, 2001

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