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GRISTEDES FOODS INC  
Form 10-Q  
July 16, 2003

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 1, 2003

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

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

Commission File Number 1-7013  
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GRISTEDE'S FOODS, INC.  
-----

(Exact Name of Registrant as Specified in its Charter)

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

13-1829183  
-----  
(I.R.S. Employer  
Identification No.)

823 ELEVENTH AVENUE, NEW YORK, NEW YORK 10019  
-----  
(Address of Principal Executive Offices)

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

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

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

Yes  No  
--- ---

Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act).

Yes No   
--- ---

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At July 15, 2003, 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

ASSETS

CURRENT ASSETS:

(Unaudited)  
June 1,  
2003

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Cash	\$	669,496	\$
Accounts receivable - net of allowance for doubtful accounts of \$516,000 at June 1, 2003 and \$481,000 at December 1, 2002		6,923,036	
Inventories		41,541,412	3
Due from related parties - trade		225,000	
Prepaid expenses and other current assets		1,760,654	
		-----	-----
Total current assets		51,119,598	4
		-----	-----
PROPERTY AND EQUIPMENT:			
Furniture, fixtures and equipment		21,105,043	2
Capitalized equipment leases		36,243,911	3
Leaseholds and leasehold improvements		62,504,955	5
		-----	-----
		119,853,909	11
Less accumulated depreciation and amortization		52,382,515	4
		-----	-----
Net property and equipment		67,471,394	6
		-----	-----
Deposits and other assets		1,110,488	
Due from related party - trade		1,414,436	
Other assets		3,990,860	
		-----	-----
TOTAL	\$	125,106,776	\$12
		=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable, trade	\$	36,336,654	\$ 3
Accrued payroll, vacation and withholdings		2,657,542	
Accrued expenses and other current liabilities		2,135,234	
Due to affiliates - trade		415,585	
Capitalized lease obligations - current portion		5,628,372	
Current portion of long term debt		2,650,740	
		-----	-----
Total current liabilities		49,824,127	4
Long-term debt - noncurrent portion		27,049,803	2
Due to affiliates		19,948,931	1
Capitalized lease obligations - noncurrent portion		14,305,905	1
Deferred rent		5,609,161	
		-----	-----
Total liabilities		116,737,927	10
		-----	-----
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Preferred stock, \$50 Par, -shares authorized 500,000; none issued		--	--
Common stock, \$0.02 par value - shares authorized 25,000,000; outstanding 19,636,574 shares at June 1, 2003 and December 1, 2002		392,732	
Additional paid-in capital		14,136,674	1
Retained deficit		(6,160,557)	(
		-----	-----

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Total stockholders' equity	8,368,849	1
	-----	---
TOTAL	\$125,106,776	\$12
	=====	====

See notes to consolidated financial statements (unaudited).

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GRISTEDE'S FOODS, INC.  
 UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS  
 FOR THE 26 WEEKS AND 13 WEEKS ENDED JUNE 1, 2003 AND JUNE 2, 2002

	26 weeks ended June 1, 2003 =====	13 weeks ended June 1, 2003 =====	26 weeks ended June 2, 2002 =====
Sales	\$145,586,712	\$70,991,953	\$121,669,7
Cost of sales	87,492,327	42,047,905	73,000,7
	-----	-----	-----
Gross profit	58,094,385	28,944,048	48,668,9
Store operating, general and administrative expenses	48,386,141	24,065,494	37,646,2
Pre-store opening startup costs and store closing costs	495,633	260,626	130,0
Depreciation and amortization	4,759,168	2,379,142	3,869,5
Insurance proceeds	(500,000)	(500,000)	(100,0
Non-store operating expenses:			
Administrative payroll and fringes	4,047,510	2,040,846	3,323,3
General office expense	1,176,879	590,436	1,033,7
Professional fees	296,191	190,673	266,5
Corporate expense	122,021	62,912	105,5
	-----	-----	-----
Total non-store operating expenses	5,642,601	2,884,867	4,729,1
	-----	-----	-----
Operating income (loss)	(689,158)	(146,081)	2,393,9
	-----	-----	-----
Other income (expense):			
Interest expense	(1,610,435)	(767,786)	(1,406,1
Interest income	2,348	1,111	3,7
Other income	--	--	--
	-----	-----	-----

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Total other income (expense) - net	(1,608,087)	(766,675)	(1,402,4
Income (loss) before income taxes	(2,297,245)	(912,756)	991,5
Provision for income taxes	--	--	25,0
Net income (loss)	\$ (2,297,245)	\$ (912,756)	\$ 966,5
Income (loss) per share, basic and diluted	(\$0.12)	(\$0.05)	\$ 0.
Weighted average number of shares and equivalents outstanding	19,636,574	19,636,574	19,636,5

See notes to consolidated financial statements (unaudited).

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GRISTEDE'S FOODS, INC.  
 UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 FOR THE 52 WEEKS ENDED DECEMBER 1, 2002  
 AND FOR THE 26 WEEKS ENDED JUNE 1, 2003

	Common Shares	stock Amount	Additional Paid-In Capital	Retained earnings (deficit)	Total Stockholders' Equity
Balance at December 2, 2001	19,636,574	\$392,732	\$14,136,674	\$ (2,936,905)	\$11,592,501
Net loss for the 52 weeks ended December 1, 2002	--	--	--	(926,407)	(926,407)
Balance at December 1, 2002	19,636,574	\$392,732	\$14,136,674	\$ (3,863,312)	\$10,666,094
Net loss for the 26 weeks ended June 1, 2003	--	--	--	(2,297,245)	(2,297,245)
Balance at June 1, 2003	19,636,574	\$392,732	\$14,136,674	\$ (6,160,557)	\$ 8,368,849

See notes to consolidated financial statements (unaudited).

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GRISTEDE'S FOODS, INC.  
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE TWENTY SIX WEEKS ENDED JUNE 1, 2003 AND JUNE 2, 2002

	26 weeks ended June 1, 2003 =====	26 weeks ended June 2, 2002 =====
Cash flows from operating activities:		
Net income (loss)	\$(2,297,245)	\$ 966,508
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,759,168	3,869,590
Change in allowance for bad debts	35,168	36,000
Changes in operating assets and liabilities:		
Accounts receivable	701,349	(196,515)
Inventory	(3,940,243)	(1,576,885)
Due from related parties - trade	(162,771)	(256,225)
Prepaid expenses and other current assets	1,065,330	786,381
Other assets	(505,192)	(295,530)
Accounts payable, trade	2,897,692	(326,484)
Accrued payroll, vacation and withholdings	(520,392)	77,460
Accrued expenses and other current liabilities	(208,419)	(805,285)
Due to related parties - trade	16,673	297,599
Deferred rent	552,914	360,791
Current and other assets acquired via capital lease	700,000	-
	-----	-----
Net cash provided by operating activities	3,094,032	2,937,405
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(4,413,649)	(2,562,528)
	-----	-----
Net cash used in investing activities	(4,413,649)	(2,562,528)
	-----	-----
Cash flows from financing activities:		
Repayments of bank loan	(1,149,999)	(461,538)
Proceeds from bank loans	--	2,900,000
Repayment of capitalized lease obligations	(2,543,739)	(1,934,735)
Advances from (repayments to) affiliates	5,106,493	(816,963)
	-----	-----
Net cash provided by (used in) financing activities	1,412,755	(313,236)
	-----	-----
Net increase in cash	93,138	61,641
Cash, beginning of period	576,358	475,873

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	-----	-----
Cash, end of period	\$ 669,496	\$ 537,514
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,734,300	\$ 1,613,271
Cash paid (refunded) for taxes	\$ 23,590	\$ (83,198)
Supplemental schedule of non cash financing activity:		
Assets acquired under capitalized lease obligations	\$ 2,640,659	\$ 3,598,845

See notes to consolidated financial statements (unaudited).

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Company operates a total of 49 stores; 40 supermarkets and three free-standing pharmacies in Manhattan, New York, three supermarkets in Westchester County, New York, and one supermarket in each of Brooklyn, New York, Bronx, New York and Long Island, New York. All of the supermarkets and pharmacies are leased and operated under the "Gristede's" banner.

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

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Basis of presentation - The unaudited consolidated financial statements included  
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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.

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

The Company's Annual Report on Form 10-K for the 52 week period ended December 1, 2002 contains information which should be read in conjunction herewith.

### 2. RELATED PARTY TRANSACTIONS

Under a management agreement dated November 10, 1997, Namdor Inc., one of the Company's subsidiaries, performs consulting and managerial services for a supermarket owned by a corporation controlled by John A. Catsimatidis. In consideration of such services, Namdor Inc. is entitled to receive, on a quarterly basis, a cash payment of one and one-quarter percent (1.25%) of all sales of inventory and merchandise made at, in or from the managed supermarket. For the 13 weeks and the 26 weeks ended June 1, 2003, there were no amounts for such services included in income.



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The Company leases the following locations from affiliates: a portion of its warehouse and distribution facility comprising 25,000 square feet, its office facilities and ten store locations (two of which commenced operations in the second fiscal quarter). During the 13 weeks and the 26 weeks ended June 1, 2003 the Company paid \$786,895 and \$1,548,790 respectively, to these affiliates for rent and real estate taxes under such leases. The leases are triple net whereby the tenant pays all real estate taxes, insurance and maintenance.

Certain of the Company's supermarkets have entered into capital and operating leases with an affiliate, Red Apple Lease Corporation, a corporation wholly owned by John A. Catsimatidis. These leases are primarily for store operating equipment. Obligations under these leases at June 1, 2003 were \$3,075,564. These leases require that monthly payments of \$76,790 be made to Red Apple Lease Corporation through March 2007.

Certain of the Company's supermarkets have entered into capital leases with United Acquisition Leasing Corp., a company wholly owned by John A. Catsimatidis. These leases are primarily for store equipment. Obligations under these leases at June 1, 2003 were \$6,287,030. These leases require that monthly payments of \$130,389 be made to United Acquisition Leasing Corp. with various expirations through February 2008.

Amounts due to United Acquisition Corp., a corporation wholly owned by John A. Catsimatidis represent liabilities in connection with the 1997 merger and additional advances made to the Company by United Acquisition Corp. since the merger. United Acquisition Corp. has agreed not to demand payment of these liabilities in the next year. Accordingly, the liability has been classified as noncurrent. As part of post-closing adjustments in connection with the 1997 merger, approximately \$3,600,000 that is due from certain of the Company's affiliates has been offset against the amounts due to United Acquisition Corp. The net amount due to affiliates at June 1, 2003 was \$19,948,931, \$16,800,000 of which was subordinated to the Company's banks. The liability presently does not bear interest. However, the Company's credit agreement with its banks permits the Company to pay interest on such subordinated debt provided the Company has a positive net income.

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In October 2002, the Company and an affiliate of the Company acquired the fixtures, leasehold improvements and store leases of three stores from the Great Atlantic & Pacific Tea Company for a total purchase price of \$5,500,000. The affiliate has leased the acquired assets to the Company. The affiliate has leased the assets acquired by it to the Company. Such stores had been closed for more than six months prior to the transaction. Obligations under these capital leases at June 1, 2003 were \$4,763,956 and require monthly payments of \$79,156 through February 2008 and a balloon payment of \$1,629,156 at such time.

In addition, in connection with the foregoing, Gristedes NY LLC received a term loan of \$5,000,000 from Commerce Bank, N.A., which loan is guaranteed by Gristedes Foods NY Inc., Namdor Inc. and City Produce Operating Corp. and secured by a pledge of all of the capital stock of Gristedes Foods NY, Inc.

Due from related parties - trade, represents amounts due from affiliated companies for merchandise shipped from the Company's subsidiary City Produce

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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 26 weeks ended June 1, 2003, merchandise sales to affiliates were approximately \$163,000. There were no sales to affiliates in the 13 weeks ended June 1, 2003. Of the total trade receivable due from an affiliate, \$1,414,436 has been classified as non-current on the balance sheet due to the extended payment terms granted.

On February 6, 1998, the Company agreed to purchase substantially all of the assets and assumed certain of the liabilities of a supermarket located at 1644 York Avenue, New York City, that was owned by a corporation controlled by John Catsimatidis. On March 1, 2000 the Company and the affiliate determined to restructure the transaction by rescinding the purchase effective as of February 6, 1998, and entering into an operating agreement which gives the Company full control of the supermarket and the right to operate the supermarket for the account of the Company. The operating agreement presently terminates on December 1, 2003, but the term shall be extended for additional one year periods unless either party gives notice of termination not later than 90 days prior to the end of the then current term of the agreement. Under the operating agreement, the Company shall pay to the affiliate \$1.00 per annum, plus such other consideration as may be approved by the Company's directors (excluding John Catsimatidis). Pursuant to the operating agreement the Company or any designee of the Company, also has the option until December 31, 2005 to purchase the supermarket for \$2,778,000, which price is the fair market price of the supermarket established on October 11, 1999 by the Company's directors (excluding John Catsimatidis).

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

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

The Company uses the services of an affiliate Red Apple Medical, a corporation wholly-owned by John Catsimatidis, as an agent for self-insurance purposes. All employee medical claims are submitted to a third party administrator who processes claims to be remitted through a controlled account. Such amounts are reimbursed by the Company to the agent. No fees have been paid to this entity for the fiscal years 2002 or 2003 to date.

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No substantive changes from the preceding quarter.

### 4. COSTS RELATING TO THE KINGS ACQUISITION

The Company has incurred costs in an effort to acquire Kings Super Markets, Inc., a chain of 27 stores, mainly located in Northern New Jersey. The Company intends to continue such efforts to acquire this company. No assurance can be given that this acquisition will be consummated. In connection with the proposed acquisition and related financing, the Company incurred certain costs (principally professional fees) in the amount of \$1,218,380 (included in other assets on the accompanying balance sheet). Approximately \$750,000 of such costs are reimbursable to the Company by its affiliate United Acquisition Corp. The deferred costs will be allocated to the purchase price and financing upon completion of the transaction. Should the transaction be unsuccessful, the deferred costs will be charged to operations. Any costs reimbursed by the affiliate will be reflected as a capital contribution.

### 5. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001 and modifies the application of the purchase accounting method effective for transactions that are completed after June 30, 2001. SFAS 142 eliminates the requirement to amortize goodwill and intangible assets having indefinite useful lives but requires that they be assessed at least annually for impairment. Intangible assets that have finite lives will continue to be amortized over their useful lives. The adoption of SFAS 141 and 142 did not have a material effect on the Company's financial position or operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS No. 144 addresses the accounting and reporting for the impairment or disposal of long-lived assets. The statement provides a single accounting model for long-lived assets to be disposed of. New criteria must be met to classify the asset as an asset held-for-sale. This statement also focuses on reporting the effects of a disposal of a segment of business. This statement is effective for fiscal years beginning after December 15, 2001. The Company adopted SFAS 144 as of December 2, 2002, and the adoption did not have a material impact on the Company's financial position or results of operations.

In April 2002, Statement of Financial Accounting Standards, No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145") was issued. SFAS 145 rescinds SFAS 4 and 64, which required gains and losses from extinguishment of debt to be classified as extraordinary items. SFAS also rescinds SFAS 44 since the provisions of the Motor Carrier Act of 1980 are complete. SFAS 145 also amends SFAS 13 eliminating inconsistencies in certain sale-leaseback transactions. The provisions of SFAS 145 are effective for fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented shall be reclassified to interest expense. The adoption of SFAS 145 did not have a material effect on the Company's financial position or results of operations.

Statement of Financial Accounting Standards, No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), was issued in July 2002. SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a

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commitment to an exit or disposal plan. SFAS 146 supercedes EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain

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Costs Incurred in a Restructuring)." SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. This pronouncement did not have a material effect on the Company's financial position or results of operations.

On December 31, 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation -Transition and Disclosure" ("SFAS 148"). This standard amends SFAS No. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more frequent and prominent disclosures in financial statements of the effects of stock-based compensation. The transition guidance and annual disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. SFAS 148 did not have a material impact on the Company's results of operations, financial position or cash flows, and the Company has adopted the disclosure provisions of SFAS 148 as of March 3, 2003, as required.

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 requires the recognition of a liability for certain guarantee obligations issued or modified after December 31, 2002. It also clarifies disclosure requirements to be made by a guarantor for certain guarantees. The disclosure provisions of FIN 45 are effective for fiscal years ending after December 15, 2002. FIN 45 did not have a material impact on the Company's results of operations, financial position or cash flows, and the Company has adopted the disclosure provisions of FIN 45 as of December 2, 2002.

On January 17, 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company has not yet evaluated whether FIN 46 will have an impact on the Company's results of operations, financial position or cash flows.

In February 2003, the Emerging Issues Task Force ("EITF") addressed EITF Statement No. 02-16 ("EITF 02-16"), "Accounting by a Reseller for Cash Consideration Received From a Vendor." EITF 02-16 provides accounting guidance on how a reseller should characterize consideration given by a vendor and when to recognize and how to measure that consideration in its income statement. EITF 02-16 is effective for all agreements entered into after December 31, 2002. The Company has evaluated the provisions of EITF 02-16 and determined that this statement did not have a material effect on its consolidated financial statements.

In April 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on

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Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. The new guidance amends SFAS 133 for decisions made: (a) as part of the Derivatives Implementation Group process that effectively required amendments to SFAS 133, (b) in connection with other Board projects dealing with financial instruments, and (c) regarding implementation issues raised in relation to the application of the definition of a derivative, particularly regarding the meaning of an "underlying" and the characteristics of a derivative that contains financing components. The amendments set forth in SFAS 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003 (with a few exceptions) and for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. The Company does not expect the provisions of SFAS 149 to have a material impact on its financial position or results of operations.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new Statement requires that those instruments be classified as liabilities in statements of financial position. The Company does not expect the provisions of SFAS 150 to have a material impact on its financial position or results of operations.

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### 6. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company complies with Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"). This statement defines a fair value based method whereby compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. Under SFAS No. 123, companies are encouraged, but are not required, to adopt the fair value method of accounting for employee stock-based transactions. The Company accounts for such transactions under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, but discloses pro forma net income (loss) as if the Company had applied the SFAS No. 123 method of accounting.

Pro forma information, assuming the Company had accounted for its employee stock options granted under the fair value method prescribed by SFAS No. 123, as amended by Financial Accounting Standards Board Statement No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure, an Amendment of FASB Statement No. 123" is presented below. The fair value of each option grant is estimated on the date of each grant using the Black-Scholes option-pricing model. There were no stock options granted in fiscal 2003 or in fiscal 2002. The fair value generated by the Black-Scholes model may not be indicative of the future benefit, if any, that may be received by the option holder.

26 WEEKS ENDED		13 WEEKS ENDED	
(\$000S)		(\$000S)	
6/1/03	6/2/02	6/1/03	6/2/02

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Net income/(loss):	\$(2,297)	\$ 967	\$ (912)	\$ 206
Less: stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	3	3	3	3
	-----	-----	-----	-----
Pro forma net income/(loss)	\$(2,300)	\$ 964	\$ (915)	\$ 203
	=====	=====	=====	=====
Earnings (loss) per share:				
Basic, as reported	\$ (0.12)	\$ 0.05	\$ (0.05)	\$ 0.01
Basic, pro forma	\$ (0.12)	\$ 0.05	\$ (0.05)	\$ 0.01
Diluted, as reported	\$ (0.12)	\$ 0.05	\$ (0.05)	\$ 0.01
Diluted, pro forma	\$ (0.12)	\$ 0.05	\$ (0.05)	\$ 0.01

This pro forma information may not be representative of the amounts to be expected in future years as the fair value method of accounting prescribed by SFAS No. 123 has not been applied to options granted prior to fiscal 1996.

### 7. PROCEEDS FROM INSURANCE COMPANY

The Company has received \$500,000 from its insurance carrier as reimbursement against legal fees incurred in the case referred to in the Company's annual report on Form 10-K as "Ansoumana v. various defendants". This amount has been included as a reduction of expenses in the 13 weeks ended June 1, 2003.

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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 26 WEEKS AND THE 13 WEEKS ENDED JUNE 1, 2003 AND JUNE 2, 2002

##### CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60, which was recently released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 1 of the Notes to the Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. The following is a brief discussion of the more significant accounting policies and methods used by us.

##### General

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates and assumptions relate to the recoverability of internally developed software costs, fixed assets and other intangibles,

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inventories, realization of deferred income taxes and the adequacy of allowances for doubtful accounts. Actual amounts could differ significantly from these estimates.

### Accounts Receivable

We continuously monitor collections and payments from our customers, third party and vendor receivables and maintain a provision for estimated credit losses based upon our historical experience and any specific collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

### Inventories

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

### Intangibles and Other Long-Lived Assets

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

### Accrued Self-Insurance

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

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## RESULTS OF OPERATIONS

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

	26 weeks ended 6/1/03 -----	26 weeks ended 6/2/02 -----	13 weeks ended 6/1/03 -----	13 weeks ended 6/2/02 -----
Sales	100.0	100.0	100.0	100.0
Cost of sales	60.1	60.0	59.2	59.7
	-----	-----	-----	-----
Gross profit	39.9	40.0	40.8	40.3
Store operating, general and administrative expenses	33.2	30.9	33.9	31.5
Pre-store opening startup costs	0.3	0.1	0.4	0.2
Depreciation and amortization	3.3	3.2	3.4	3.2
Insurance and grant proceeds	-0.3	--	-0.7	--
Non-store operating expense	3.9	3.8	4.1	3.9
	-----	-----	-----	-----
Operating income (loss)	-0.5	2.0	-0.2	1.5
Other income (expense)	-1.1	-1.2	-1.1	-1.1

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Income (loss) from operations before income taxes	-1.6	0.8	-1.3	0.4
Provisions for income taxes	--	--	--	--
Net income (loss)	-1.6	0.8	-1.3	0.4

Sales were \$145,586,712 and \$70,991,953 for the 26 weeks and for the 13 weeks ended June 1, 2003, respectively, as compared to \$121,669,727 and \$61,879,067 for the 26 weeks and for the 13 weeks ended June 2, 2002, respectively. During the 13 weeks ended June 1, 2003, we re-opened one store that was closed for remodeling; opened two new stores and closed two stores. The increases in sales for the 2003 periods primarily resulted from new stores opened during the latter part of fiscal 2002 and in fiscal 2003.

Same store sales decreased 0.2% and 3.2% for the 26 weeks and for the 13 weeks ended June 1, 2003, respectively, as compared to the 26 weeks and 13 weeks ended June 2, 2002. Same store sales are calculated using stores that were open for business both in the current period and in the same period last year.

Gross profit was \$58,094,385 or 39.9% of sales and \$28,944,048 or 40.8% of sales for the 26 weeks and for the 13 weeks ended June 1, 2003, respectively, as compared to \$48,668,975 or 40.0% of sales and \$24,907,860 or 40.3% of sales for the 26 weeks and for the 13 weeks ended June 2, 2002, respectively. The increase in gross profit as a percentage of sales during the 13 weeks ended June 1, 2003 was primarily due to increased sales of perishables, which have higher gross margins and an overall improvement in margins.

Store operating, general and administrative expenses were \$48,386,141 or 33.2% of sales and \$24,065,494 or 33.9% of sales for the 26 weeks and for the 13 weeks ended June 1, 2003, respectively, as compared \$37,646,244 or 30.9% of sales and \$19,506,222 or 31.5% of sales for the 26 weeks and for the 13 weeks ended June 2, 2002, respectively. Store

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operating, general and administrative expenses increased as a percentage of sales during the 2003 periods mainly due to higher labor costs resulting from the new and remodeled stores which opened or re-opened since the 2002 period.

Pre-store opening startup costs and store closing costs were \$495,633 and \$260,626 for the 26 weeks and for the 13 weeks ended June 1, 2003 as compared to \$130,041 for both the 26 weeks and for the 13 weeks ended June 2, 2002, respectively. Two new stores were opened, one store was re-opened and two stores were closed during the 13 weeks ended June 1, 2003, compared to no new and two remodeled stores which re-opened during the 13 weeks ended June 2, 2002.

Non-store operating expenses were \$5,642,601 or 3.9% of sales and \$2,884,867 or 4.1% of sales for the 26 weeks and for the 13 weeks ended June 1, 2003, respectively, as compared with \$4,729,182 or 3.8% of sales and \$2,411,643 or 3.9% of sales for the 26 weeks and for the 13 weeks ended June 2, 2002, respectively. Administrative payroll and fringes were 2.8% of sales for the 26 weeks and 2.9% of sales for the 13 weeks ended June 1, 2003 as compared to 2.7% of sales for both the 26 weeks and for the 13 weeks ended June 2, 2002, respectively. The increase in the 2003 periods primarily reflects the addition of supervisory personnel as a result of additional business generated by the store remodeling and new store program. General office expenses were 0.8% of sales for the 26 weeks and the 13 weeks ended June 1, 2003 and also for the 26 weeks and the 13 weeks ended June 2, 2002, respectively. Professional fees were



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0.2% of sales for the 26 weeks and 0.2% for the 13 weeks ended June 1, 2003 as compared to 0.2% of sales for both the 13 weeks and for the 26 weeks ended June 2, 2002. Corporate expenses were 0.1% of sales for each of the 26 weeks and 13 weeks ended June 1, 2003 and for the 26 weeks and the 13 weeks ended June 2, 2002.

Depreciation and amortization expense was \$4,759,168 or 3.3% of sales and \$2,379,142 or 3.4% of sales for the 26 weeks and the 13 weeks ended June 1, 2003 as compared to \$3,869,590 or 3.2% of sales and \$1,960,937 or 3.2% of sales for the 26 weeks and for the 13 weeks ended June 2, 2002. The increase in depreciation and amortization expense was primarily the result of significant capital expenditures incurred in connection with our store remodeling and expansion program.

Interest expense was \$1,610,435 and \$767,786 or 1.1% of sales for both the 26 weeks and for the 13 weeks ended June 1, 2003 as compared to \$1,406,154 and \$694,325 or 1.2% of sales for both the 26 weeks and for the 13 weeks ended June 2, 2002. The increases in the 2003 periods was primarily attributable to increased borrowings under the bank line and capital leases for equipment financing, partially offset by lower interest rates.

As a result of the items reviewed above, income (loss) before provision for income taxes were (\$2,297,245) and (\$912,756) for the 26 weeks and for 13 weeks ended June 1, 2003 as compared to \$991,508 and \$205,522 for the 26 weeks and for the 13 weeks ended June 2, 2002.

### LIQUIDITY AND CAPITAL RESOURCES

#### Liquidity:

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Our consolidated financial statements indicate that at June 1, 2003 current assets exceed current liabilities by \$1,295,471 and stockholders' equity was \$8,368,849. Management believes that cash flows generated from operations, supplemented by financing from our bank facility, third party leasing companies and/or additional financing from the Company's majority shareholder, will be sufficient to pay our debts as they may come due, provide for our capital expenditure program and meet our other cash requirements.

#### Debt and Debt Service:

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Effective October 2001, our credit agreement with a group of banks was amended and increased to an aggregate total of \$32,500,000, consisting of a \$15,500,000 term loan and a \$17,000,000 revolving line of credit. As of June 1, 2003, our credit facility, as amended, provides for (i) a maturity date of November 28, 2004 for the revolving line of credit, and December 3, 2006 for the term loan, at which time all amounts outstanding thereunder are due, (ii) certain financial covenants, and (iii) amortization of the term loan in monthly amortizations totaling \$2,000,000, \$2,300,000,

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\$2,600,000, \$2,900,000 and \$3,200,000, respectively, in each year during its term, and a \$2,500,000 balloon payment at maturity.

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

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outstanding under our credit facility during the quarter ended June 1, 2003 was 4.53% per annum.

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

The Company's majority shareholder, through affiliates, has contributed \$19,948,931 through June 1, 2003, in the form of unsecured non-interest bearing loans, of which \$16,800,000 is subordinated to the Company's banks. The liability presently does not bear interest. However, the Company's credit agreement with its banks permits the Company to pay interest on such subordinated debt provided the Company has a positive net income.

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

### Capital Expenditures:

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Capital expenditures were \$6.4 million for the 26 weeks ended June 1, 2003, including property acquired under capital leases, as compared to \$6.2 million for the 26 weeks ended June 2, 2002.

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

### Cash Flow:

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Cash provided by operating activities amounted to \$3,094,032 for the 26 weeks ended June 1, 2003 as compared to \$2,937,405 for the 26 weeks ended June 2, 2002. The change in cash flow from operating activities was primarily due to increasing accounts payable to support an increase of inventory, primarily due to new stores opened in the period. Net cash used for investing activities was \$4,413,649 in 2003 as compared to \$2,562,528 in 2002. Cash provided by (used in) financing activities was \$1,412,755 for the 26 weeks ended June 1, 2003 as compared to \$(313,236) for the 26 weeks ended June 2, 2002 reflecting the bank financing drawn upon in 2002 and the additional proceeds provided by an affiliate of the Company, offset by repayments of bank loans and capital leases.

### Recent Accounting Pronouncements:

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In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001 and modifies the application of the purchase accounting method effective for transactions that are completed after June 30, 2001. SFAS 142 eliminates the requirement to amortize goodwill and intangible assets having indefinite useful lives but requires that they be assessed at least annually for impairment. Intangible assets that have finite lives will continue to be amortized over their useful lives. The adoption of SFAS 141 and 142 did not have a material effect on the Company's financial position or operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS No. 144 addresses the accounting and reporting for the impairment or disposal of long-lived assets. The statement provides a single accounting model for long-lived assets to be disposed of. New criteria must be met to classify the asset as an asset held-for-sale. This statement also focuses on reporting the effects of a disposal of a segment of business. This statement is effective for fiscal years beginning after December 15, 2001. The Company adopted SFAS 144 as of December 2, 2002, and the adoption did not have a material impact on the Company's financial position or results of operations.

In April 2002, Statement of Financial Accounting Standards, No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145") was issued. SFAS 145 rescinds SFAS 4 and 64, which required gains and losses from extinguishment of debt to be classified as extraordinary items. SFAS also rescinds SFAS 44 since the provisions of the Motor Carrier Act of 1980 are complete. SFAS 145 also amends SFAS 13 eliminating inconsistencies in certain sale-leaseback transactions. The provisions of SFAS 145 are effective for fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented shall be reclassified to interest expense. The adoption of SFAS 145 did not have a material effect on the Company's financial position or results of operations.

Statement of Financial Accounting Standards, No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), was issued in July 2002. SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 supercedes EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. This pronouncement did not have a material effect on the Company's financial position or results of operations.

On December 31, 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation -Transition and Disclosure" ("SFAS 148"). This standard amends SFAS No. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more frequent and prominent disclosures in financial statements of the effects of stock-based compensation. The transition guidance and annual disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. SFAS 148 did not have a material impact on the Company's results of operations, financial position or cash flows, and the Company has adopted the disclosure provisions of SFAS 148 as of March 3, 2003, as required.

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 requires the recognition of a liability for certain guarantee obligations issued or modified after December 31, 2002. It also clarifies disclosure requirements to be made by a guarantor for certain guarantees. The disclosure provisions of FIN 45 are effective for fiscal years ending after December 15, 2002. FIN 45 did not have a material impact on the Company's results of

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operations, financial position or cash flows, and the Company has adopted the disclosure provisions of FIN 45 as of December 2, 2002.

On January 17, 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company has not yet evaluated whether FIN 46 will have an impact on the Company's results of operations, financial position or cash flows.

In February 2003, the Emerging Issues Task Force ("EITF") addressed EITF Statement No. 02-16 ("EITF 02-16"), "Accounting by a Reseller for Cash Consideration Received From a Vendor." EITF 02-16 provides accounting guidance on how a reseller should characterize consideration given by a vendor and when to recognize and how to measure that consideration in its income

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statement. EITF 02-16 is effective for all agreements entered into after December 31, 2002. The Company evaluated the provisions of EITF 02-16 and determined that this statement did not have a material effect on its consolidated financial statements.

In April 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. The new guidance amends SFAS 133 for decisions made: (a) as part of the Derivatives Implementation Group process that effectively required amendments to SFAS 133, (b) in connection with other Board projects dealing with financial instruments, and (c) regarding implementation issues raised in relation to the application of the definition of a derivative, particularly regarding the meaning of an "underlying" and the characteristics of a derivative that contains financing components. The amendments set forth in SFAS 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003 (with a few exceptions) and for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. The Company does not expect the provisions of SFAS 149 to have a material impact on its financial position or results of operations.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new Statement requires that those instruments be classified as liabilities in statements of financial position. The Company does not expect the provisions of SFAS 150 to have a material impact on its financial position or results of operations.

Forward-looking information:

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This report and documents incorporated by reference contain both historical and "forward-looking statements" within the meaning of the Private Securities

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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. A more detailed description of some of the risk factors is set forth in the Company's Annual Report on Form 10-K, dated December 1, 2002.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

### ITEM 4. CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures.

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

#### (b) Changes in Internal Controls

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

GRISTEDE'S FOODS INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS  
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None.

ITEM 2. CHANGE IN SECURITIES AND USE OF PROCEEDS  
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None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES  
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None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS  
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None.

ITEM 5. OTHER INFORMATION  
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None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K  
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(a) Exhibits

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

\* filed herewith

(b) There were no Current Reports on Form 8-K filed during the 13 weeks ended June 1, 2003.

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.

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By: /s/ John A. Catsimatidis  
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John A. Catsimatidis  
Chairman of the Board and  
Chief Executive Officer

Dated: July 16, 2003

By: /s/ Gary Pokrassa  
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Gary Pokrassa  
Chief Financial Officer

Dated: July 16, 2003

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ANNUAL AND QUARTERLY CERTIFICATIONS  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John A. Catsimatidis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gristede's Foods, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based

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on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ John A. Catsimatidis

Date: July 16, 2003

Title: Chief Executive Officer

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### ANNUAL AND QUARTERLY CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gary Pokrassa, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gristede's Foods, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our



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evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
  
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Gary Pokrassa

Date: July 16, 2003

Title: Chief Financial Officer