GRISTEDES FOODS INC
Form 10-Q
April 18, 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 March 4, 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 April 6, 2001, registrant had issued and outstanding 19,636,574 shares of common stock.

GRISTEDE'S FOODS, INC. AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

Item 1
Financial Statements

GRISTEDE'S FOODS, INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS

ASSETS	March 4, 2001
CURRENT ASSETS:	
Cash	$ 449,8
Accounts receivable - net of allowance for doubtful accounts of $168,000 at March 4, 2001 and $150,000 at December 3, 2000	7,184,8
Inventory	29,533,4
Due from related parties - trade	1,183,1
Due from related parties - other	872,7
Prepaid expenses and other current assets	2,032,5
Total current assets	41,256,7
PROPERTY AND EQUIPMENT:	
Furniture, fixtures and equipment	17,065,6
Capitalized equipment leases	19,520,1
Leaseholds and leasehold improvements	48,947,0
	85,532,8

Less accumulated depreciation and amortization	36,442,1
Net property and equipment	49,090,7
Deposits and other assets	979,5
Other assets	3,259,2
TOTAL	$ 94,586,2
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable, trade	$ 25,091,3
Accrued payroll, vacation and withholdings	2,359,1
Accrued expenses and other current liabilities	602,8
Capitalized lease obligation - current portion	2,478,4
Current portion of long term debt	7,916,6
Total current liabilities	38,448,4
Long-term debt - noncurrent portion	19,799,4
Due to affiliates	12,802,4
Capitalized lease obligation - noncurrent portion	8,252,6
Deferred rent	3,504,5
Total liabilities	82,807,6
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Preferred stock, $50 Par, -share authorized 500,000; none issued	
Common stock, $0.02 par value - shares authorized 25,000,000; outstanding 19,636,574 shares at March 4, 2001 and December 3, 2000	392,7
Additional paid-in capital	14,136,6
Retained earnings/ (deficit)	(2,750,7
Total stockholders' equity	11,778,6
TOTAL	$ 94,586,2

See accompanying notes.

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GRISTEDE'S FOODS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE 13 WEEKS ENDED MARCH 4, 2001 AND FEBRUARY 27, 2000

	13 weeks ended March 4, 2001	13 weeks ended February 27, 2000
Sales	$ 59,586,146	$ 53,747,897
Cost of sales	36,488,204	32,408,079
Gross profit	23,097,942	21,339,818
Store operating, general and administrative expenses	18,061,742	16,260,186
Pre-store opening startup costs	66,000	283,333
Depreciation and amortization	1,683,734	1,271,300
Non-store operating expenses:		
Administrative payroll and fringes	1,247,632	1,076,338
General office expense	609,919	411,418
Professional fees	146,367	110,573
Corporate expense	43,992	42,315
Total non-store operating expense	2,047,910	1,640,644
Operating income	1,238,556	1,884,355
Other income (expense):		
Interest expense	(957,007)	(886,186)
Interest income	4,670	14,707
Other income	184,953	0
Total other expense - net	(767,384)	(871,479)
Income before income taxes	471,172	1,012,876
Provision for income taxes	10,000	6,500
Net income	$ 461,172	$ 1,006,376
Income per share, basic and diluted	$ 0.02	$ 0.05
Weighted average number of shares and equivalents outstanding	19,636,574	19,636,574

See accompanying notes

GRISTEDE'S FOODS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 3, 2000
AND FOR THE QUARTER ENDED MARCH 4, 2001

	Common stock Shares	Common stock Amount	Additional Paid-In Capital	
Balance at November 28, 1999	19,636,574	$ 392,732	$ 14,136,674	$
Net loss for the year ended December 3, 2000				
Balance at December 3, 2000	19,636,574	$ 392,732	$ 14,136,674	$
Net income for the quarter ended March 4, 2001				
Balance at March 4, 2001	19,636,574	$ 392,732	$ 14,136,674	$

See accompanying notes.

GRISTEDE'S FOODS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE QUARTERS ENDED MARCH 4, 2001 AND FEBRUARY 27, 2000

	13 weeks ended March 4, 2001	13 we end Februar 200
Cash flows from operating activities:		
Net income	$ 461,172	$ 1,006
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,683,734	1,271
Change in allowance for bad debts	18,000	
Gain on sale of store	(192,177)	
Changes in operating assets and liabilities:		
Accounts receivable	(338,556)	600
Inventory	571,505	(1,159

Notes receivable	0	72
Due from related parties - trade	(304,171)	
Prepaid expenses and other current assets	455,774	(171
Other assets	(97,088)	3
Accounts payable, trade	(1,865,018)	(726
Accrued payroll, vacation and withholdings	(38,436)	(72
Accrued expenses and other current liabilities	(740,335)	24
Deferred rents	202,800	166
Other credits	0	(197
Net cash provided by (used in) operating activities	(182,796)	816
Cash flows from investing activities:		
Proceeds from sale of store	225,000	
Capital expenditures - net	(1,519,029)	(2,580
Net cash used in investing activities	(1,294,029)	(2,580
Cash flows from financing activities:		
Repayments of bank loan	(700,000)	(300
Proceeds from bank loans	0	800
Repayment capitalized lease obligations	(658,308)	(444
Advances from affiliates	2,872,607	1,750
Net cash provided by financing activities	1,514,299	1,805
NET INCREASE IN CASH	37,474	40
CASH, begining of period	412,408	298
CASH, end of period	$ 449,882	$ 339
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 973,224	$ 339
Cash paid for taxes	$ 63,632	$ 89
Supplemental schedule of non cash financing activity:		
Assets acquired under capital lease obligations	$ 805,198	$ 1,165

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. Five of the Supermarkets are operated under the "Sloan's" name and 37 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 quarter ended March 4, 2001, the management fee income was $11,721. For the quarter ended February 27, 2000 the management fee income was $23,976. 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 March 4, 2001 which previously required monthly payments of $35,114 through March 1, 2001. Obligations under operating leases were $41,676 per month during the quarter ended March 4, 2001.

Advertising services are provided to the Company by an affiliated company, MCV Advertising Associates Inc., a company owned by John Catsimatidis. For the quarter ended March 4, 2001 the costs incurred were $20,448. For the quarter ended February 27, 2000 the costs incurred were

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$375,102. 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 and four supermarket locations from Red Apple Real Estate, Inc., a company solely owned by John Catsimatidis. For the quarter ended March 4, 2001 the Company paid to Red Apple Real Estate, Inc. $383,450 for rent under such leases. The lease terms provide for an aggregate of $1,561,000 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 $9,200 for rendering legal services to the Company during the quarter ended March 4, 2001.

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 March 4, 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 quarter ended March 4, 2001, merchandise sales to affiliates were approximately $675,000. 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

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operating agreement terminates on May 10, 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. Since such notice was not given, the agreement has been renewed by one year until May 10, 2002. Pursuant to the operating agreement, the Company, or any designee of the Company, also has the option until December 31, 2005 to purchase the supermarket for the fair market price of the supermarket as established by the Company's directors (excluding John Catsimatidis) using a valuation criterion similar to that issued for valuing the store at 1644 York Avenue, New York City. It is management's opinion that the fair market value of this store is approximately $3 million.

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

In connection with the restructure of the transaction relating to the supermarket located at 1644 York Avenue, approximately $872,000 is included in "Due from related parties - other" on the accompanying balance sheet.

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. 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 QUARTERS ENDED MARCH 4, 2001 AND FEBRUARY 27, 2000

RESULTS OF OPERATIONS

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

	13 weeks ended 3/4/01	13 weeks ended 2/27/00
Sales	100.0%	100.0%
Cost of sales	61.2	60.3
Gross profit	38.8	39.7
Store operating, general and administrative expenses	30.3	30.3
Pre-store opening startup costs	0.1	0.5
Depreciation and amortization	2.8	2.4
Non-store operating expense	3.4	3.1
Operating income	2.1	3.5
Other income (expense)	(1.3)	(1.6)

Income from operations before income taxes	0.8	1.9
Provisions for income taxes	0.0	0.0
Net income	0.8%	1.9%

Sales for the quarter ended March 4, 2001 were $59,586,146 as compared to sales for the quarter ended February 27, 2000 of $53,747,897. The increase in sales during the 2001 period 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 was $23,097,942 or 38.8% of sales for the quarter ended March 4, 2001 as compared with $21,339,818 or 39.7% of sales for the quarter ended February 27, 2000. The decrease in gross profit as a percentage of sales, during the

2001 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 period.

Store operating, general and administrative expenses was $18,061,742 or 30.3% of sales for the quarter ended March 4, 2001 as compared with $16,260,186 or 30.3% of sales for the quarter ended February 27, 2000. Store operating, general and administrative expenses as a percentage of sales were unchanged in the 2001 period as compared to the 2000 period mainly due to substantially greater electric costs in our trading area, offset by lower labor costs as a percentage of sales, lower advertising expense and equipment rentals converted to capitalized leases.

Pre-store opening startup costs were $66,000 or 0.1% of sales for the quarter ended March 4, 2001 as compared with $283,333 or 0.5% of sales for the quarter ended February 27, 2000. The decrease in pre-store opening startup costs in the quarter ended March 4, 2001 was due to the fact that fewer stores were remodeled or new stores opened as compared to the same quarter in 2000. The stores remodeled required less pre-opening advertising and store set-up labor costs.

Non-store operating expenses were $2,047,910 or 3.4% of sales for the quarter ended March 4, 2001 as compared with $1,640,644 or 3.1% of sales for the quarter ended February 27, 2000. Administrative payroll and fringes were 2.1% of sales for the quarter ended March 4, 2001 as compared with 2.0% of sales for the quarter ended February 27, 2000. The small change in the 2001 period as a percent of sales reflects the containment of costs associated with the supervisory personnel required as a result of the additional business generated by the store remodeling program. General office expenses were 1.0% of sales for the quarter ended March 4, 2001 as compared with 0.8% of sales for the quarter ended February 27, 2000. The increase during the 2001 period was primarily due to additional back office costs in relation to the increased sales. Professional fees were 0.2% of sales for both the quarter ended March 4, 2001 and for the quarter ended February 27, 2000. Corporate expenses were 0.1% of sales for both the quarter ended March 4, 2001 and for the quarter ended February 27, 2000.

Interest expense was $957,007 or 1.6% of sales for the quarter ended March 4, 2001 as compared with $886,186 or 1.6% of sales for the quarter ended February

27, 2000. The increase in the 2001 period was primarily attributable to increased borrowings under capital leases for equipment financing, partially offset by lower interest rates.

Other income was $184,953 or 0.3% of sales for the quarter ended March 4, 2001 as compared with $0 for the quarter ended February 27, 2000. 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 quarter ended March 4, 2001 was $471,172, as compared to $1,012,876 for the quarter ended February 27, 2000.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity:

The consolidated financial statements of the Company indicate that at March 4, 2001 current assets exceed current liabilities by $2,105,092 and stockholders' equity was $11,778,616. 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 quarter ended March 4, 2001 was 9.50%

per annum.

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

The Company's majority shareholder, through affiliates, has contributed in excess of $12,000,000 through March 4, 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 $0.5 million in fiscal 2001 compared to $0.8 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 $1.3 million in 2001 compared to $2.6 million in 2000, resulting from reduced capital expenditures. Cash provided by financing acitivities was $0.8 million in 2001 compared with $1.8 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: April 18, 2001

By: /s/ Gary Pokrassa

Gary Pokrassa
Chief Financial Officer

Dated: April 18, 2001