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GRISTEDES FOODS INC  
Form 10-K  
April 07, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For fiscal year ended November 30, 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 No. 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

10019-3535

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

-----  
(Zip Code)

(212) 956-5803

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

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

Title of each class Common Stock, \$0.02 par value	Name of each exchange on which registered American Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13, or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No \_\_\_\_\_

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

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Rule 12b-2) Yes \_\_\_\_\_ No X

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As of February 27, 2004, 19,636,574 shares of the registrant's common stock, \$0.02 par value, were outstanding.

The aggregate market value of the common stock held by nonaffiliates of the registrant (i.e., excluding shares held by executive officers, directors, and control persons as defined in Rule 405) on June 1, 2003 (the last business day of the Company's second fiscal quarter) was \$785,130, computed at the closing price on that date.

Documents Incorporated by Reference: None

This annual report on Form 10-K contains both historical and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "anticipates", "believes", "expects", "intends", "future", and similar expressions identify forward-looking statements. Any such "forward-looking" statements in this report reflect the Company's current views with respect to future events and financial performance, and are subject to a variety of factors that could cause the actual results or performance to differ materially from historical results or from the anticipated results or performance expressed or implied by such forward-looking statements. Because of such factors, there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the anticipated results. The risks and uncertainties that may affect the Company's business include, but are not limited to: economic conditions, governmental regulations, technological advances, pricing and competition, acceptance by the marketplace of new products, retention of key personnel, the sufficiency of financial resources to sustain and expand the Company's operations, and other factors described in this report and in prior filings with the Securities and Exchange Commission. Readers should not place undue reliance on such forward-looking statements, which speak only as of the date hereof, and should be aware that except as may be otherwise legally required of the Company, the Company undertakes no obligation to publicly revise any such forward-looking statements to reflect events or circumstances that may arise after the date hereof.

### ITEM 1. BUSINESS.

#### General

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

The Company operates 46 supermarkets (the "Supermarkets"), and three free standing pharmacies offering health and beauty aids and general merchandise. Forty Supermarkets and the three free standing pharmacies are located in Manhattan, New York, three Supermarkets are located in Westchester County, New York, one Supermarket is located in Brooklyn, New York, one Supermarket is located in Bronx County, New York and one Supermarket is located in Long Island, New York. All of the Supermarkets / pharmacies are operated under the "Gristede's" banner. The Company leases all of its Supermarket locations and its three pharmacies. During fiscal 1999 the Company embarked on a plan to open in-store pharmacies in select Supermarket locations. The Company is currently operating nine in-store pharmacies and three free standing pharmacies.

During the period commencing the fourth quarter of fiscal 2002 through the second quarter of fiscal 2003, the Company opened a total of seven new

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stores (consisting of six supermarkets and one free standing pharmacy), and closed two stores. During fiscal 2003, the Company also commenced operating XpressGrocer.com, an on-line supermarket providing groceries, household items, fresh foods and other supermarket items in the borough of Manhattan, New York City.

The Company owns City Produce Operating Corp. ("City Produce"), a corporation that operates a warehouse used as an internal distribution center, on leased premises in Bronx County, New York. The warehouse operation supplies the Company's Supermarkets with groceries and fresh produce. The warehouse also sells wholesale fresh produce to third parties.

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The Company competes on the basis of providing customer convenience, service and a wide assortment of food products, including those that are appealing to the clientele in the neighborhoods where its Supermarkets are located. The Supermarkets, like most Manhattan supermarkets, are smaller than their suburban counterparts, ranging in size from approximately 6,000 to 24,500 square feet of selling space and averaging approximately 10,300 square feet of selling space.

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

The Company's predecessor was incorporated in 1956 in New York. In 1985, the Company's domicile was changed to Delaware by merging the predecessor corporation into a newly formed Delaware corporation, incorporated for such purpose. The Company became a public company in 1968 and listed its common stock on the American Stock Exchange in 1972. Until 1992, the Company engaged in the jewelry business, operating under the name Designcraft Industries, Inc. for most of such time. The Company changed its name to Sloan's Supermarkets, Inc., in September 1993 and to Gristede's Sloan's, Inc., in November 1997. The Company changed its name to Gristede's Foods, Inc. in August 1999 to reflect its strategy of changing its "Sloan's" banner locations to "Gristede's" subsequent to a store remodeling.

### Growth Strategy

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

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Subsequent to the Merger, the Company embarked on a capital expenditure program for its Supermarkets that included extensive remodelings, the introduction of a centralized point-of-sale information system and the opening of in-store pharmacies in select Supermarket locations. The Company has a \$27,116,666 revolving credit and term loan facility from certain banks maturing December 2006, and finance facilities from leasing companies to finance such capital improvements. (see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation-Liquidity and Capital Resources").

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The aggregate capital expenditures for fiscal 2003, including the store remodeling and new store and free standing pharmacy openings, was approximately \$8.8 million. Subject to the availability of financing, during the fiscal year ending November 28, 2004, the Company anticipates it will spend approximately \$2-3 million in aggregate capital expenditures. The Company anticipates that it will continue opening new stores and in-store pharmacies in future years. The modernized larger Supermarkets are being re-named "Gristede's Mega Stores".

Modernization has resulted in a more enjoyable shopping atmosphere with more rapid check-out lines due to scanners and improved lighting facilities.

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

The Company attempted to acquire Kings Supermarkets, Inc., a chain of 29 stores, mainly located in northern New Jersey, but such attempt was not successful.

### Marketing

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

### Competition

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

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gourmet food stores, health and beauty aid stores, drug stores, produce stores, bodegas, delicatessens and other retail food establishments.

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### Sources of Supply; Inventory Policy

During fiscal 2003 the Company obtained approximately 35% of the merchandise sold in its stores from one supplier, White Rose Foods, Inc. and the balance from other vendors, none of which accounted for more than 10% of merchandise purchased by the Company. The Company believes that its supplier relationships are currently satisfactory. The Company is not dependent on these supplier relationships since merchandise is readily available from numerous sources under different brand names, subject to conditions affecting food supplies generally. The Company's policy is to have its Supermarkets and pharmacies fully stocked with merchandise at all times. This policy requires the Company to carry significant amounts of inventory.

### Tradenames

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

### Labor Contracts

All of the employees of the Company other than 156 full time administrative employees and executives and 152 store managers and co-managers are represented by unions. The table below sets forth the name of each union with which the Company has a collective bargaining agreement and the expiration date of such agreement.

Name of Union	Expiration Date
Retail, Wholesale & Chain Store Food Employees Union, Local 338	October 7, 2006
Amalgamated Meat Cutters and Retail Food Local 342 Store Employees Union, Local 342-50	October 25, 2007
United Food and Commercial Workers Union ("UFCW"), Local 174	December 20, 2006
UFCW, Local 1500	June 25, 2006
UFCW, Local 464A	May 1, 2006
International Brotherhood of Teamsters ("Teamsters"), Local 803	month-to-month
Teamsters, Local 202	January 15, 2010

### Governmental Approvals

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

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### Employees

At February 27, 2004, the Company had approximately 2,180 employees, 2,024 of which are employed at the Supermarkets, the pharmacies or the City Produce warehouse, and 167 of which are employed at the Company's executive offices. Approximately 707 employees were employed on a full-time basis, of which 540 employees work in the Supermarkets or the pharmacies. The Company believes that its relationships with its employees are satisfactory.

### Seasonality

The Company's Supermarkets are predominantly located in the borough of Manhattan in New York City and serve a more affluent clientele often referred to as the "carriage trade." Owing to the significant exodus of such customers during the summer months for vacation and holiday, together with an increased propensity by resident customers for out of home dining during such period, the Company traditionally incurs up to a 20% seasonal drop in sales during the months of July and August each year. The seasonal decline in sales does not have a material impact on the level of inventories carried by the Company.

### Environmental Compliance

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

### ITEM 2. PROPERTIES.

The Company leases all 46 Supermarket locations, its three free standing pharmacies and the warehouse and distribution center operated by City Produce. Including option renewals, one such lease expires prior to 2005, 15 of such leases expire on dates from 2005 through 2013, and 33 of such leases expire on dates from 2014 through 2040 (the warehouse is subject to three leases). Several leases have optional renewal periods. It is generally the Company's intention to exercise such options. The supermarkets range in size from approximately 6,000 to 24,500 square feet of selling space, averaging approximately 10,300 square feet of selling space. All of the stores are air-conditioned, have all necessary fixtures and equipment and are suitable for the retail operations conducted therein.

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### ITEM 3. LEGAL PROCEEDINGS.

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

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On January 13, 2000, plaintiffs commenced a class action lawsuit in the U.S. District Court for the Southern District of New York (hereinafter referred to as the "Ansoumana Action"). Their complaint alleged violations of the Fair Labor Standards Act and the New York Labor Law. Plaintiffs claimed damages for the differential between the amount they were paid by the Great American Delivery Service Company and what the minimum wage was in each specific year dating back to 1994. Thirty-seven delivery workers opted into the class action.

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

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

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

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

Thereafter, Great American was found to be in contempt of several orders and added as a party-defendant by motion to amend the complaint in the Ansoumana Action. In response to those proceedings, Great American filed for bankruptcy. Hence, the breach of contract action commenced by Great American against the Company was stayed. The Company transferred the case to the United States Bankruptcy Court in the Eastern District of New York. Great American's bankruptcy petition was dismissed. Nevertheless, Great American posted a \$400,000 bond in the breach of contract action pending in Nassau County to obtain a preliminary injunction and the Company is seeking to collect on the bond on the grounds that the preliminary injunction was improvidently granted.

In August 2003 the Company entered into a stipulation and agreement of settlement, pursuant to which the Company will be obligated to pay \$2,600,000 plus up to \$650,000 in legal fees, with any remaining amount to be added to the class settlement. The full amount of the proposed settlement will be shared approximately 50/50 by the Company and an affiliate controlled by John A. Catsimatidis. Payment of the legal fees is due in the same percentage installments as the settlement amount, commencing the later of (i) November 28, 2003, or (ii) 10 days after the court approves the payment of attorneys fees and costs. In December 2003, the court approved the proposed settlement as fair, and entered a final judgment in the matter.

An initial payment of \$1.3 million (50%) was made on October 16, 2003, by an affiliate, controlled by John A. Catsimatidis, on behalf of the Company. The

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balance of the proposed settlement amount will be paid by the Company and is due in equal installments of \$650,000 on the first and second anniversary of the initial payment, without interest. The plaintiffs have been conditionally granted a subordinated security interest in certain of the Company's assets to secure the payments of the settlement amount. Additionally, recoveries from a \$400,000 security bond posted by Great American / Baur shall be solely for the Company's benefit, with any such recovery used to prepay the Company's remaining obligations under the settlement.

The full amount of the \$3,250,000 settlement, including legal fees, was recorded as a litigation settlement expense of the Company. Payments received to date from the affiliate were recorded as a capital contribution reflected as additional paid-in capital; future affiliate reimbursements will be similarly recorded.

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

None.

## PART II

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

#### Market Information

The Company's Common Stock is listed and traded on the American Stock Exchange. Since November 12, 1997 the Common Stock has been quoted under stock symbol "GRI." Prior thereto it was quoted under the symbol "SLO." For the years ended November 30, 2003, and December 1, 2002 the quarterly high and low price range for such common stock is shown in the following tabulation.

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Quarter	Fiscal Year Ended November 30, 2003		Fiscal Year Ended December 1, 2002	
	High	Low	High	Low
First	\$0.86	\$0.57	\$1.92	\$0.45
Second	0.86	0.52	1.33	0.90
Third	1.40	0.50	1.65	0.90
Fourth	1.43	0.90	1.00	0.65

The approximate number of holders of record of the Company's Common Stock on February 27, 2004 was 212. The Company believes that there are a significant number of shares of the Company's Common Stock held in street name and, consequently, the Company is unable to determine the actual number of beneficial owners.

#### Dividends



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

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### ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for fiscal years 2003, 2002, 2001, 2000, and 1999 have been derived from the audited consolidated financial statements of the Company and should be read in conjunction with our Consolidated Financial Statements.

	Fiscal year ended				
	November 30, 2003	December 1, 2002	December 2, 2001	December 3, 2000	November 3, 1999
Sales	\$ 279,686,646	\$ 250,732,767	\$ 229,988,315	\$ 216,325,214	\$ 181,325,214
Cost of sales	167,391,201	151,435,010	139,180,967	131,259,228	112,325,214
Gross profit	112,295,445	99,297,757	90,807,349	85,065,986	69,000,000
Store operating, general and administrative expenses	94,469,217	79,175,726	71,596,708	67,550,165	57,000,000
Corporate overhead	11,473,438	9,830,478	8,329,559	7,435,949	5,000,000
Depreciation and amortization	9,618,491	7,989,625	7,204,281	6,284,971	4,000,000
Bad debt expense * (credits)	1,731,436	72,000	250,354	(350,000)	0
Interest expense	3,103,891	2,967,181	3,537,281	3,761,941	2,000,000
Net income (loss)	(\$ 11,593,471)	\$ (926,407)	\$ 275,057	\$ (190,908)	\$ (2,000,000)
Net income (loss) per share	\$ (0.59)	\$ (0.05)	\$ 0.01	\$ (0.01)	\$ (0.01)
At End of Period					
Total assets	\$ 129,356,130	\$ 120,612,141	\$ 101,131,361	\$ 96,446,057	\$ 76,000,000
Long-term debt **	59,992,313	58,137,496	46,682,929	42,378,525	41,000,000
Total liabilities	126,554,879	109,946,047	89,538,860	85,128,613	64,000,000

Certain reclassifications were made to fiscal 2002 consolidated financial statements to conform to the fiscal 2003 presentation.

\* Includes \$1,639,436 due from an affiliate, and received in full from the affiliate's ultimate parent in accordance with its guarantee in fiscal year

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2003. As the payment was made by another affiliate, and not by an unrelated third party, it was required to be accounted for as a bad debt expense of the Company, offset by an equal contribution to paid-in-capital (see Management's Discussion and Analysis of Financial Condition and Results of Operations).

\*\* Includes amounts due to affiliates of \$22,008,258, \$14,842,437, \$14,525,904, 12,129,031, and \$9,113,500 respectively, for the fiscal years 2003, 2002, 2001, 2000, and 1999 respectively. The affiliates have agreed not to demand payment of these liabilities in the next fiscal year. There is no stated final maturity date; the entire amount due affiliates as of November 30, 2003 has been subordinated to the 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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### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Company Background

The fiscal years ended November 30, 2003, December 1, 2002 and December 2, 2001 consisted of 52 weeks each.

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

	2003 ----	2002 ----	2001 ----
Sales	100.0%	100.0%	100.0%
Cost of sales	59.8%	60.4%	60.5%
	-----	-----	-----
Gross profit	40.2%	39.6%	39.5%
Store operating, general and administrative expense	33.8%	31.6%	31.1%
Pre-store opening startup costs	0.2%	0.3%	0.1%
Bad debt expense (credits)	0.6%	--	--
Depreciation and amortization	3.4%	3.2%	3.1%
Non-store operating expense	4.1%	3.9%	3.6%
Net Insurance Proceeds - "Northeast blackout"	(0.7%)	--	--
Insurance Proceeds-terrorist attack	--	(0.2%)	(0.7%)
Casualty Loss-Terrorist attack	--	--	0.5%
Write Off Kings Acquisition Costs	0.5%	--	--
Litigation Settlement	1.2%	--	--
Operating income (loss)	(2.9%)	0.8%	1.6%
Other expense	1.2%	1.2%	1.4%
	-----	-----	-----
Income (loss) from operations before income taxes	(4.1%)	(0.4%)	0.2%
Income taxes	--	--	0.1%
	-----	-----	-----
Net income (loss)	(4.1%)	(0.4%)	0.1%
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Percentages of individual line items (as a percent of sales) have been rounded to the nearest tenth of a percent, and therefore, the totals may not add to 100%.

### Results of Operations (2003 Compared to 2002)

Sales for the fiscal year 2003 were \$279,686,646, an 11.5% increase over sales of \$250,732,767 for fiscal 2002. The Company engaged in a major new store expansion commencing in the fourth quarter of 2002 through the second quarter of 2003. During this period, the Company opened 7 new stores, and closed 2 stores. The sales increase in fiscal 2003 versus fiscal 2002 is mainly attributable to this new store expansion and the one store remodeled in fiscal 2003, and to full years sales for those new or remodeled stores opened during fiscal 2002. Same store sales for fiscal 2003 were approximately 3.5% lower than fiscal 2002. The decline in same store sales during the 2003 period was attributable to promotional pricing by a competitor, decrease in sales of certain product categories due to the unseasonably cool and wet summer of 2003, and the August 14, 2003 "Northeast blackout". Same store sales are calculated using stores that were open for business both in the current quarter and in the same period last year.

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During fiscal 2003, the Company recorded certain non-recurring charges to its statement of operations totaling \$6,174,618. The majority of these charges (\$3,728,538 or 60%) were the result of the accounting treatment required to be used by the Company in recording cash receipts from its affiliates, or cash payments made by its affiliates to third parties on behalf of the Company, pursuant to prior written agreements. These cash receipts were financially favorable to the Company, but because payments were made by affiliates of the Company, instead of unrelated third parties, they were required to be accounted for as non-recurring charges to the Company's statement of operations, offset by equal contributions to additional paid-in-capital. The agreements entered into between the Company and its affiliates were:

(1) The Company's trade and other accounts receivable from one affiliate were guaranteed by the affiliate's ultimate parent. During fiscal 2003, \$1,639,436 from the affiliate was paid in full by the affiliate's ultimate parent, in accordance with its guarantee. This was accounted for as a bad debt expense of the Company, offset by an equal contribution to additional paid-in-capital. Primarily because of this non-recurring charge, bad debt expense for fiscal 2003 was \$1,731,436, compared to \$72,000 for fiscal 2002.

(2) In connection with the settlement of litigation with certain delivery workers ("Ansoumana v. et. al."), the Company entered into a stipulation and agreement of settlement, pursuant to which the Company is obligated to pay \$2,600,000, plus up to \$650,000 in legal fees, with any remaining amount added to the settlement. The settlement amount and legal fees will be shared approximately 50/50 by the Company and an affiliate controlled by John A. Catsimatidis. Nonetheless, the full amount of the settlement, including legal fees, totaling \$3,250,000 was recorded as a litigation settlement expense of the Company. Payments to date received from the affiliate (\$1,300,000 was paid into escrow in October, 2003, as an initial payment under the settlement) were recorded as a capital contribution reflected as additional paid-in-capital; future affiliate reimbursements will be similarly recorded. The Company is also attempting to recover from a \$400,000 security bond posted by one of the defendants in the litigation. Any

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recoveries from the bond shall be solely for the Company's benefit, with any such recovery used to prepay the Company's remaining obligations under the settlement.

(3) In connection with the Company's previous efforts to acquire Kings Super Markets, Inc., a supermarket chain, mainly located in northern New Jersey, the Company entered into an arrangement for the funding of acquisition costs with an affiliate. During fiscal 2003, acquisition costs previously capitalized by the Company totaling \$ 1,285,182, were charged to operations. The affiliate reimbursed the Company \$ 789,102 in accordance with the agreement. This was accounted for as a contribution to additional paid-in-capital.

The Company suffered significant losses of perishable inventory during the "Northeast blackout" of August 14-15, 2003. To a lesser extent, there were also property repair and damage losses, and related expenses. The Company's inventory is insured for its retail selling price, and property is insured for its new replacement cost. The Company has filed claims for these losses and related expenses with its insurance carriers and expects to recover at least approximately \$5.8 million. The minimum claim for associated inventory costs and related expenses is approximately \$4 million, resulting in a minimum expected net insurance gain of approximately \$1.9 million, which is in lieu of filing separately for business interruption insurance and other expenses related to stocking, restocking and other costs associated with the "blackout". Machinery and other property are insured for their replacement cost. The insurance gain was recorded in the third quarter ended August 31, 2003, without separately accounting for the costs that go against such gain. The insurance carriers have acknowledged that the Company's losses are covered under its policy and have advanced the Company \$1 million against its insured claims. The Company is expecting final settlement of its claim prior to August 1, 2004.

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Gross profit was \$112,295,445 or 40.2% of sales for fiscal 2003 as compared with \$99,297,757 or 39.6% of sales for 2002. The increase in gross profit during the 2003 period was primarily due to the ability of the Company to increase and maintain gross margins on the sale of its products, including having a higher proportion of perishable sales which have higher margins, offset by promotional pricing on new store openings and major remodel re-openings.

Store operating, general and administrative expenses were \$94,469,217 or 33.8% of sales for fiscal 2003 as compared to \$79,175,726 or 31.6% of sales for fiscal 2002. The increase in store operating, general and administrative expenses as a percentage of sales in the 2003 period was mainly due to the Company's new store expansion. Advertising expenses, net of cooperative advertising of \$629,045 included in store operating, general and administrative expense in fiscal 2003 were \$1,394,169 and \$2,180,285 for fiscal 2003 and 2002, respectively. In prior years such reimbursements were included as a reduction in cost of sales.

Pre-store opening startup costs were \$530,894 or 0.2% of sales for fiscal 2003 as compared to \$741,570 or 0.3% of sales for fiscal 2002. During fiscal 2003, three new stores and one new free standing pharmacy were opened, and 1 store was remodeled, compared to three new stores and six remodeled stores in fiscal 2002. Pre-store opening startup costs were lower in fiscal 2003 owing to the lower total number of stores opened or remodeled.

Non-store operating expenses were \$11,473,438 or 4.1% of sales for fiscal 2003 as compared to \$9,830,478 or 3.9% of sales for fiscal 2002. Administrative payroll and fringes were 2.9% of sales for the 2003 period as compared with 2.8% of sales for the 2002 period. The increase in the 2003 period

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primarily reflects the addition of department and divisional managers to handle the additional business generated by the store expansion program. General office expenses as a percentage of sales were 0.9% for the 2003 period as compared to 0.8% for the 2002 period. Professional fees were 0.1% of sales for the 2003 period as compared to 0.2% for the 2002 period. Corporate expenses as a percentage of sales were 0.1 % for both the 2003 and 2002 periods.

Depreciation and amortization expense was \$9,618,491 or 3.4% of sales for fiscal 2003 as compared to \$7,989,625 or 3.2% of sales for fiscal 2002. The increase in the 2003 period was primarily a result of significant capital expenditures incurred in connection with the Company's new store expansion and store remodeling program.

Interest expense was \$3,103,891 or 1.1% of sales for fiscal 2003 as compared to \$2,967,181 or 1.2% of sales for fiscal 2002. The decrease in expense as a percentage of sales in the 2003 period was primarily attributable to lower bank borrowings and lower prevailing interest rates under the Company's bank credit facility, partially offset by increased capitalized equipment leasing interest expense.

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As a result of the items discussed above, the net loss for fiscal year 2003 was (\$11,593,471) as compared to a net loss of (\$926,407) for fiscal 2002.

The new store expansion program significantly lowered earnings and EBITDA for fiscal 2003 through a combination of higher labor costs, promotional pricing reductions of gross margins, and higher advertising, depreciation, interest and rent expense. The Company uses the term "EBITDA" to mean net income before income taxes, interest expense, depreciation, amortization, and changes in deferred rent and other non-cash charges. EBITDA is a term not defined under United States generally accepted accounting principles. The Company's management considers EBITDA to be an important measure in evaluating the Company's financial performance and uses this measure in managing its ongoing operations. The Company's method of computation of EBITDA may or may not be comparable to other similarly titled measures used by other companies. (See reconciliation of EBITDA to net income in the table set forth below).

New stores incur significantly higher promotional pricing (than remodeled stores) in their initial start-up phase. The negative EBITDA impact of the seven new stores during fiscal 2003 was approximately \$3,500,000. Additionally, the two stores closed in fiscal 2003 had a negative EBITDA impact of approximately \$200,000. As a result of the new and closed stores, the Company reported a lower EBITDA of \$8,459,000 in fiscal 2003, versus EBITDA of \$10,873,000 in fiscal 2002.

Reconciliation of EBITDA to net income:

	Fiscal 2003	Fiscal 2002
Net (loss)	\$(11,593,471)	\$ (926,407)
Interest expense	3,103,891	2,967,181
Income tax expense	48,508	40,000
Depreciation, amortization & changes in deferred rent	10,724,993	8,792,406
Other non-cash charges (detailed herein):		
Affiliate bad debt expense	1,639,436	-

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Litigation settlement	3,250,000	-
Write-off Kings acquisition costs	1,285,182	-
	-----	-----
EBITDA	\$8,458,539	\$10,873,180
	-----	-----

### Results of Operations (2002 Compared to 2001)

Sales for the year 2002 were \$250,732,767 as compared to sales for the year 2001 of \$229,988,315. The sales increase in fiscal 2002 compared to the sales in fiscal 2001 is mainly attributable to sales increases due to new or remodeled stores opened in fiscal 2002 or full years sales for those new or remodeled stores opened during 2001. Same store sales for the year 2002 were 7.1% ahead of 2001. Gross profit was \$99,297,757 or 39.6% of sales as compared with \$90,807,349 or 39.5% of sales for 2001. The increase in gross profit during 2002 period was primarily due to higher proportion of perishable sales with higher margins, offset by promotional pricing on new store openings and major remodel re-openings.

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Store operating, general and administrative expenses were \$79,175,726 or 31.6% of sales for the year 2002 as compared to \$71,596,708 or 31.1% of sales for the year 2001. The increase in store operating, general and administrative expenses as a percentage of sales in the 2002 period was mainly due to new and remodeled stores opening in the latter part of the year. Advertising expenses included in store operating, general and administrative expense were \$2,180,285 and \$1,572,963 for the years 2002 and 2001, respectively.

Pre-store opening startup costs were \$741,570 or 0.3% of sales for the year 2002 as compared to \$165,000 or 0.1% of sales for the year 2001. There were three new stores and six remodeled stores in 2002 compared to no new stores and six remodeled stores in 2001, leading to increased pre-store opening startup costs in 2002. Furthermore, costs incurred for the year 2002 also included some costs for two stores which opened in December 2002, following the fiscal year end. New stores generally are given heavier promotion than remodeled stores.

Non-store operating expenses were \$9,830,478 or 3.9% of sales for the year 2002 as compared to \$8,329,559 or 3.6% of sales for the year 2001. Administrative payroll and fringes were 2.8% of sales for the 2002 period as compared with 2.4% of sales for the 2001 period. The increase in the 2002 period reflects the addition of department and divisional managers to handle the additional business generated by the store remodeling program and higher health costs. General office expenses as a percentage of sales were 0.8% for the 2002 period as compared to 0.9% for the 2001 period. The decrease during the 2002 period was primarily due to effective control of back office expenses in relation to the increased sales. Professional fees were 0.2% of sales for the 2001 period as compared to 0.3% for the 2001 period. Corporate expenses as a percentage of sales were 0.1% for both the 2002 period and the 2001 period.

Depreciation expense was \$7,989,625 or 3.2% of sales for the year 2002 as compared to \$7,204,281 or 3.1% of sales for the year 2001. The increase in the 2002 period was primarily a result of significant capital expenditures incurred in connection with the Company's store renovation and remodeling program.

Management has filed claims with its insurance carriers as a result the September 11 terrorist attacks for its losses, including business interruption.

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The Company settled these claims with the insurance company in October 2002 for approximate net proceeds of \$1.5 million, and incurred costs of approximately \$1.1 million which amounts were reflected in fiscal 2001. The Company further has applied for various government grants amounting to approximately \$400,000 net of fees and expects to receive these in full during fiscal 2003. The grants, along with an insurance claim for a theft loss from its warehouse, were recorded in fiscal 2002.

Interest expense was \$2,967,181 or 1.2% of sales for year 2002 as compared to \$3,537,281 or 1.5% of sales for year 2001. The decrease in the 2002 period was primarily attributable to lower prevailing interest rates under the Company's bank credit facility, partially offset by increased capitalized equipment leasing.

Interest income for the year 2002 was \$5,116 as compared with \$9,016 for the year 2001. The decrease in the 2002 period was due to lower prevailing interest rates in the 2002 period.

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Other income for the year 2002 was \$0 as compared with \$173,112 for the year 2001. This mainly results from the sale of a store lease resulting from a closed store in 2001.

Bad debt expense was \$72,000 for the year 2002 as compared with \$250,354 for the year 2001. Bad debt expense was higher in the year 2001 primarily as a result of the Company's expansion of its pharmacy business and systems relating thereto and the resulting increase in third party receivables.

As a result of the items discussed above, the income (loss) before provision for income taxes for the year 2002 was (\$886,407) as compared to \$373,897 for the year 2001.

### Liquidity and Capital Resources

The consolidated financial statements of the Company indicate that at November 30, 2003, current assets exceed current liabilities by \$324,425 and stockholders' equity was \$2,801,251. Significant working capital changes during fiscal 2003 included a \$4,180,710 increase in accounts receivable owing to insurance claims receivable from the August, 2003 "Northeast blackout", a \$6,944,215 increase in inventories owing to the recently opened new stores, and a \$11,165,693 increase in accounts payable owing to increased vendor payables and litigation settlement expense.

As further discussed in footnote 12 to the Notes to Consolidated Financial Statements herein ("Impact of August 14-15, 2003 Northeast blackout), the Company has filed claims for losses incurred during the "blackout" and expects to recover a total amount of at least \$ 5.8 million, against which it has already received \$ 1 million. Pending final settlement of its insurance claim, United Acquisition Corp., a corporation indirectly wholly owned by the majority shareholder, agreed to provide the Company with an interim \$ 5 million liquidity credit facility available during fiscal 2004. The credit facility has no stated maturity date and does not presently bear interest.

Management believes that cash flows generated from operations, supplemented by financing from its bank facility, third party leasing companies and/or additional financing from the Company's majority shareholder, will be sufficient to pay the Company's debts as they may come due, provide for its capital expenditure program and meet its other cash requirements.

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### Debt and Debt Service:

In April 2004, the Company's credit agreement with a group of banks was amended to provide for a total facility of \$27,116,666, consisting of a \$17,000,000 revolving line of credit, and a \$10,116,666 term loan. The amendment was effective as of November 29, 2003, and the credit facility as amended provides for: (i) a maturity date of March 31, 2005 for the revolving line of credit, and December 3, 2006 for the term loan, at which time all amounts outstanding thereunder are due, (ii) amortization of the term loan totaling \$2,600,000, \$2,900,000 and \$3,200,000 during fiscal 2004, 2005 and 2006, respectively, and a \$2,500,000 balloon payment at maturity on December 3, 2006, and (iii) certain financial covenants.

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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 fiscal year 2003 was 4.40 % 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 and fixed charge coverage ratios, and which limit transactions with affiliates. The facility is secured by equipment, inventories and accounts receivable.

The following is a summary of the Company's significant contractual cash obligations for the periods indicated that existed as of November 30, 2003, and is based on information appearing in the notes to consolidated financial statements (amounts in thousands).

	2004	2005*	2006	2007	2008	Thereafter
	-----	-----	-----	-----	-----	-----
Long-term debt	\$ 2,651	\$ 19,975	\$ 5,925	\$ --	\$ --	\$ --
Operating leases	\$ 18,873	\$ 18,597	\$ 18,367	\$ 16,775	\$ 16,606	\$ 102,241
Capital lease obligations	\$ 5,677	\$ 4,661	\$ 3,507	\$ 2,324	\$ 1,592	\$ --
	-----	-----	-----	-----	-----	-----
Total contractual cash obligations	\$ 27,201	\$ 43,233	\$ 27,799	\$ 19,099	\$ 18,198	\$ 102,241
	-----	-----	-----	-----	-----	-----

\* Includes \$17,000,000 indebtedness under a revolving credit agreement maturing in March 2005.

Not included in the above table are net advances from the Company's majority shareholder, through affiliates, totaling \$22,008,258 through November 30, 2003 in the form of non-interest bearing loans, which are subordinated to the Company's banks. The liability presently does not bear interest and has no stated maturity date. 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



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program.

### Capital Expenditures:

Capital expenditures for fiscal 2003, including property acquired under capital leases, were \$8.8 million compared to \$19.3 million for fiscal 2002 and \$12.2 million for fiscal 2001. During fiscal 2003, the Company opened three new stores and one free standing pharmacy, remodeled one store (and closed 2 stores).

The Company has not incurred any material commitments for capital expenditures, although it anticipates spending approximately \$2-3 million on store remodeling in fiscal 2004. Such amount is subject to adjustment based on the availability of funds.

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### Cash Flows:

Cash provided by operating activities amounted to \$3.9 million in fiscal 2003 compared to \$6.7 million in fiscal 2002. The change in cash flow from operating activities was primarily due to cash provided by operating assets and liabilities and a larger net loss in fiscal 2003 compared to fiscal 2002. Cash used for investing activities was \$6.0 million in 2003 compared to \$8.5 million in 2002, resulting from decreased capital expenditures. Cash provided by (used in) financing activities was \$2.3 million in fiscal 2003, compared to \$1.9 million in 2002 reflecting the additional proceeds provided by an affiliate, and capital contribution in connection of funding of Company costs, offset by repayments of bank loans and capital leases.

### Recent Accounting Pronouncements:

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

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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 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.

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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 March 15, 2004.

In December 2003, the FASB issued a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R" or the "Interpretation"). FIN 46R clarifies the application of ARB No. 51, "Consolidated Financial Statements," to certain entities in which equity investors 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. FIN 46R requires the consolidation of these entities, known as variable interest entities ("VIEs"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both

Among other changes, the revisions of FIN 46R: (1) clarified some requirements of the original FIN 46, which had been issued in January 2003, (2) eased some implementation problems, and (3) added new scope exceptions. FIN 46R deferred the effective date of the Interpretation for public companies, to the end of the first reporting period ending after March 15, 2004, except that all public companies must at a minimum apply the provisions of the Interpretation to entities that were previously considered "special-purpose entities" under the FASB literature prior to the issuance of FIN 46R by the end of the first reporting period ending after December 15, 2003. The Company is currently evaluating the effect that the adoption of FIN 46 will have on its financial position, cash flows and results of operations.

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Emerging Issues Task Force ("EITF") No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor," provides that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor's products or services and should, therefore, be characterized as a reduction in cost of sales unless it is a payment for assets or services delivered to the vendor, in which case the cash consideration should be characterized as revenue, or it is a reimbursement of costs incurred to sell the vendor's products, in which case the cash consideration should be characterized as a reduction of that cost. EITF No. 02-16 became effective for the Company in the first quarter of 2003.

Slotting allowances are a small portion of total allowances. With slotting allowances, the vendor reimburses the Company for the cost of placing new product on the shelf. The Company has no obligation or commitment to keep the product on the shelf for a minimum period.

Prior to the adoption of EITF No. 02-16, slotting allowances were considered reimbursement of the Company's costs and recognized when a product was first stocked, which is generally the point at which all related store operating, general and administrative expenses have been incurred. Promotional allowances were recognized when the promotion ran. Beginning with the adoption of EITF No. 02-16 in the first quarter of 2003, slotting and promotional allowances are accounted for as a reduction in the cost of purchased inventory and recognized when the related inventory is sold.

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In November 2003, the EITF reached a consensus on EITF No. 03-10, "Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers." EITF No. 03-10 addresses the accounting for manufacturer sales incentives offered directly to consumers, including manufacturer coupons. The consensus applies to new arrangements, including modifications to existing arrangements, entered into in fiscal periods beginning after November 25, 2003. Adoption of EITF No. 03-10 is not expected to have a material effect on the Company's 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 adoption of SFAS 149 did not have a material impact on the Company's 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 adoption of SFAS 150 did not have a material impact on the Company's financial position or results of operations.

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### 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 2 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 the Company.

### 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 adequacy of allowances for doubtful accounts, fixed assets and other intangibles, inventories, realization of deferred income taxes and the recoverability of internally developed software costs. Actual amounts could differ significantly from these estimates.

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### 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.

### ITEM 7A. 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

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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.

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### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Independent auditors' report	F-1
Consolidated Balance Sheets as of November 30, 2003, and December 1, 2002	F-2
Consolidated Statements of Operations for the years ended November 30, 2003, December 1, 2002 and December 2, 2001	F-4
Consolidated Statements of Stockholders' Equity for the years ended November 30, 2003, December 1, 2002 and December 2, 2001	F-5
Consolidated Statements of Cash Flows for the years ended November 30, 2003, December 1, 2002 and December 2, 2001	F-6
Notes to Financial Statements	F-7

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

None.

### ITEM 9A CONTROLS AND PROCEDURES.

(a) Based on an evaluation by management of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the fiscal year ended November 30, 2003 (the "Evaluation Date"), each of John Catsimatidis, Chairman and Chief Executive Officer of the Company, and Kishore Lall, Executive Vice President and Chief Financial Officer of the Company, have concluded that the Company's disclosure controls and procedures were effective as of the Evaluation Date.

Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

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(b) There have not been any significant changes in the Company's internal controls over financial reporting that occurred during the Company's fiscal quarter ended November 30, 2003, that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below is certain information as of February 27, 2004 with respect to all directors and executive officers of the Company.

Name and Age	Director Since	Position with the Company or Other Principal Occupation for the Past Five Years
John A. Catsimatidis (55)	1988 (5)	Chairman of the Board, President and Chief Executive Officer of the Company since July 28, 1988; Treasurer of the Company from July 28, 1988 to March 17, 1998 and since November 15, 1998; Chairman of the Board and Chief Executive Officer of Red Apple Group, Inc. from July 28, 1988 to November 15, 1998; Chairman of the Board and Chief Executive Officer of United Refining Company (a refiner and retailer of petroleum products) for more than five years; Director of Red Apple Group, Inc., a public company whose stock is traded on the New York Stock Exchange since December 4, 1991.

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

Name and Age	Director Since	Position with the Company or Other Principal Occupation for the Past Five Years
Kishore Lall (56)	1997	Chief Financial Officer since August, 2003, a position he held previously from August, 2002 to August, 2003; President - Finance and Administration and Secretary of the Company since May 2002; Director of the Company since August, 2002; Chief Financial Officer and consultant to Red Apple Group, Inc. from January, 1997 to August, 2002; Director of United Refining Company since August, 1997.

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investor from June 1994 to December 1996; Senior  
Head of Commercial Banking of ABN AMRO Bank,  
January 1991 until May 1994.

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Martin R. Bring (61)	1988	Stockholder in the law firm of Anderson Kill February 1, 2002; Partner in the law firm of Solis-Cohen LLP and predecessor firm for more thereto; Director of United Refining Company
Edward P. Salzano (56)	1999	Executive Vice President and Director of Cant privately held sauce and salsa manufacturing 15 years.
Andrew Maloney (71)	2002	Counsel to DeFeiss O'Connell & Rose since Jan to Kramer Levin Naftalis & Frankel LLP from A 2002, and a partner of Brown & Wood, LLP from April 1998; United States Attorney for the Ea York from June 1986 until December 1992; Dire Company since 1997.
Frederick Selby (65)	1978	Chairman of Selby Capital Partners (acquisiti privately owned firms and divisions of public than five years; Managing Director and senior acquisitions division of Bankers Trust Compan President of Corporate Finance of B.A.I.I. Ba Director of Corporate Finance of Legg Mason W thereto.
Martin Steinberg (70)	1998	Independent consultant. Mr. Steinberg also se the Company from May 1974 to January 1991.

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### Audit Committee

The Audit Committee of the Board of Directors is comprised of three directors: Frederick Selby, Martin Steinberg and Edward Salzano. All of the Audit Committee members are independent as that term is defined in Section 121(A) of the listing standards of the American Stock Exchange. Mr. Selby has been designated as the Audit Committee financial expert (as defined in item 401(h) of Regulation S-K of the Securities Exchange Act of 1934, as amended). The Audit Committee met three times during fiscal year 2003.

### Code of Ethics

The Company has adopted a Code of Ethics pursuant to Section 406 of the

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Sarbanes-Oxley Act of 2002. A copy of the Code of Ethics is being filed herewith as Exhibit 14.1

### Section 16(a) Beneficial Ownership Reporting Compliance

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

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no reports were required during fiscal 2003, all Section 16(a) filings applicable to its directors, officers and more than 10 percent beneficial owners were timely filed.

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### ITEM 11. EXECUTIVE COMPENSATION.

The following table sets forth for the fiscal years ended November 30, 2003, December 1, 2002, and December 2, 2001 certain information concerning the compensation paid or accrued to certain executive officers of the Company (collectively, the "Named Executive Officers"). The Company believes that the aggregate amount of perquisites and other personal benefits paid to each of the Named Executive Officers did not exceed the lesser of (i) 10% of such officer's total annual salary and bonus or (ii) \$50,000. Thus, such amounts are not reflected in the following table.

#### SUMMARY COMPENSATION TABLE

Name and principal position *	Year	Annual Compensation			Awards		Long-term com
		Salary (\$)	Bonus (\$)	Other annual compensation (\$)	Restricted stock award(s) (\$)	Optio /Sar (#)	
John Catsimatidis, Chairman of the Board, President and Chief Executive Officer	Fiscal 2003	\$100,000	\$ -	\$ -	\$ -	-	
	Fiscal 2002	100,000	-	-	-	-	
	Fiscal 2001	100,000	-	-	-	-	
Gary Pokrassa * Chief Financial Officer	Fiscal 2003	\$150,000	\$ -	\$ -	\$ -	-	
	Fiscal 2002	150,000	-	-	-	-	
	Fiscal 2001	150,000	-	-	-	-	



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\*Mr. Gary Pokrassa, left the Company in August, 2003; Mr. Kishore Lall succeeded him as Chief Financial Officer.

Options Granted in Last Fiscal Year

The following table sets forth certain information concerning options granted during fiscal 2003 to the Named Executive Officers.

Name	Number of Securities Underlying Options Granted (#)	Percentage of Total Options Granted to Employees in 2002	Exercise Price (\$/Share)	Market Price of Common Stock on Date of Grant (\$/Share)	Expiration Date
John Catsimatidis	0	--	--	--	--

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

During fiscal 2003, no stock options were exercised by any of the Named Executive Officers. The following table sets forth the number and value of options outstanding at November 30, 2003 held by the Named Executive Officers:

Name	Number of Unexercised Options Held on November 30, 2003	Value of Unexercised in-the-Money Options on November 30, 2003
John Catsimatidis	525,000/0	0/0

The closing sales price of the Common Stock on the American Stock Exchange on November 28, 2003 (the last trading day before November 30, 2003) was \$ 1.05. On November 30, 2003, Mr. Catsimatidis held options to purchase 275,000 shares of Common Stock at \$3.75 per share and options to purchase 250,000 shares at \$2.875 per share.

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### Compensation of Directors

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

### Compensation Committee Interlocks and Insider Participation

The entire Board of Directors acted as the Company's Compensation Committee during fiscal 2003. Two of the seven Directors, John A. Catsimatidis and Kishore Lall, were executive officers of the Company during that fiscal year. None of the other Directors had a relationship with the Company requiring disclosure under applicable SEC disclosure rules. This arrangement is permissible under the listing standards of the American Stock Exchange, because the Company is a "controlled company" as defined in Section 801(a) of the corporate governance requirements of the American Stock Exchange.

### COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Philosophy. The Company's executive compensation philosophy is to provide competitive levels of compensation, integrate management's pay with the achievement of the Company's long-term performance goals, recognize individual initiative and achievement, and assist the Company in attracting and retaining qualified management. Executive compensation consists of base salary and long term incentive compensation in the form of stock options. The compensation of the Company's executive officers is reviewed and approved by the Compensation Committee. Management compensation is intended to be set at levels that the Compensation Committee believes is consistent with others in the Company's industry.

In reviewing compensation levels of the Company's key executives, the Compensation Committee considers, among other items, corporate profitability; previous years' and competitors' profitability; revenues; and the quality of the Company's services. No specific weight is accorded to any single factor. Relative weights differ from executive to executive and change from time to time as circumstances warrant.

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Base Salaries. Base salaries for new management employees are determined initially by evaluating the responsibilities of the position held and the experience of the individual, and by reference to the competitive market place for managerial talent. Salary adjustments are determined by evaluating the performance of the executive and any increased responsibility assumed by the executive, the competitive marketplace and the performance of the Company.

Equity Ownership. The Company established a stock option plan for its key employees in October 1994 and in March 1998 the Board of Directors approved the 1998 Option Plan for key employees, directors and consultants. In April 1999 the Board of Directors approved an amendment to the 1998 Option Plan to increase the number of shares of stock reserved under the plan from 500,000 to 1,500,000, which amendment was approved by the stockholders of the Company in August 1999. The Compensation Committee believes that equity ownership by management is a means of aligning management's and stockholders' interests in the enhancement of stockholder value.

Compensation of Chief Executive Officer. Mr. Catsimatidis is the principal stockholder of the Company and from August 1991 to November 10, 1997 served the Company without receiving a salary. Since November 10, 1997 Mr. Catsimatidis has been earning a salary at the rate of \$100,000 per year.

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During fiscal 2003, the Compensation Committee met once. Compensation of the Company's executive officers for fiscal 2003 was determined by the Compensation Committee.

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

The following table sets forth certain information regarding ownership of Common Stock on February 27, 2004 by: (i) each stockholder known to the Company to own beneficially more than 5% of the outstanding shares of Common Stock; (ii) each of the Company's directors; (iii) each of the Named Executive Officers; and (iv) all executive officers and directors of the Company as a group. The address of each person is c/o Gristede's Foods, Inc., 823 Eleventh Avenue, New York, N.Y. 10019. The Company believes that ownership of the shares by the persons named below is both of record and beneficial and such persons have sole voting and investment power with respect to the shares indicated.

Name and Address of Beneficial Owner -----	Number of Shares -----	Percent of Cl -----
John Catsimatidis	18,675,150 (1)	92.1%
Martin Steinberg	127,642 (2)	*
Kishore Lall	70,000 (3)	*
Martin Bring	26,000 (4)	*
Frederick Selby	13,110 (5)	*
Edward P. Salzano	3,000	*
Andrew J. Maloney	0	*
Gary Pokrassa	0	*
All officers and directors as a group (8 persons)	18,914,902 (1) (6)	93.3%

\* Less than 1%.

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- (1) Includes an aggregate of 12,573,974 shares held by corporations controlled by Mr. Catsimatidis, 81,900 shares held by Mr. Catsimatidis as custodian, 2,057 shares held by a profit sharing plan of which Mr. Catsimatidis is a trustee, 605 shares held by Mr. Catsimatidis as a trustee of individual retirement accounts and currently exercisable options to purchase an aggregate of 525,000 shares of Common Stock.
- (2) Includes an aggregate of 15,000 shares of Common Stock which may be purchased upon the exercise of currently exercisable stock options.
- (3) Includes an aggregate of 55,000 shares of Common Stock which may be purchased upon the exercise of currently exercisable options.
- (4) Includes an aggregate of 26,000 shares of Common Stock which may be purchased upon the exercise of currently exercisable stock options.
- (5) Includes an aggregate of 11,000 shares of Common Stock which may be

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purchased upon the exercise of currently exercisable options.

- (6) Includes an aggregate of 632,000 shares of Common Stock which may be purchased upon the exercise of currently exercisable stock options.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth additional information as of November 30, 2003, about shares of our Common Stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not submitted to the stockholders for approval.

	(a)	(b)	(c)
Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of Shares remaining available for future issuance under equity compensation plans (excluding shares reflected in the table)
Equity compensation plans approved by security holders	1,170,500	\$3.14	32,000
Equity compensation plans not approved by security holders	--	--	--
Total	1,170,500	\$3.14	32,000

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has entered into indemnification agreements with each of its directors and officers. These indemnification agreements supplement the indemnification provisions of the Company's By-laws and the Delaware General Corporation Law. The stockholders of the Company authorized the Company to enter into such agreements with each of its directors at the Annual Meeting of Stockholders held on August 21, 1987. The Board of Directors has authorized the Company to enter into such agreements with each of its officers

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

The Company leases the following locations from an affiliate, Red Apple Real Estate, Inc., a company wholly owned by John A. Catsimatidis: a portion of its warehouse and distribution facility comprising 25,000 square feet, its office facilities and all or a portion of ten store locations. During fiscal 2003, the Company incurred expenses totaling \$3,876,165 for rent and real estate taxes under such leases. The lease terms provide for aggregate rent and real estate taxes of \$5,098,927 for fiscal 2004. 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 November 30, 2003 and December 1, 2002 were \$2,697,250 and \$3,435,385 respectively. 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 an affiliate, United Acquisition Leasing Corp., a company wholly owned by John A. Catsimatidis. These leases are primarily for store equipment. Obligations under these leases at November 30, 2003 and December 1, 2002 were \$3,899,970 and \$4,030,094 respectively. These leases require that monthly payments of \$100,525 be made to United Acquisition Leasing Corp. with various expirations through May 31, 2008.

Amounts due to affiliates, primarily United Acquisition Corp., a corporation indirectly 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. These 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 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 November 30, 2003 and December 1, 2002 was \$22,008,258 and \$14,842,437 respectively, of which \$22,008,258 and \$14,200,000 respectively were 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. There is no stated maturity date.

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In October 2002, the Company and Gristede's NY LLC, a company wholly owned by John Catsimatidis 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 those 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 November 30, 2003 were \$4,468,920 and require monthly payments of \$79,156 through February 2008 and a balloon payment of \$1,629,156 at such time.

In October 2002, in connection with the foregoing, Gristede's NY LLC, received

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a term loan of \$5,000,000 from Commerce Bank, N.A. The loan is guaranteed by Gristede's Foods NY, Inc. (a wholly-owned subsidiary of Namdor, Inc.), and the Company's subsidiaries Namdor Inc., and City Produce Operating Corp., and secured by a pledge of all of the capital stock of Gristede's Foods NY, Inc. The loan had a balance of \$ 4,646,939 at November 30, 2003.

Due from related parties - trade, represents amounts due from an affiliated company for merchandise shipped from the Company's subsidiary City Produce Operating Corp., in the ordinary course of business, as well as management fees receivable for administrative and managerial services performed for the affiliated company by the Company. Amounts receivable from the affiliate were guaranteed by a company controlled by John A. Catsimatidis. During fiscal years 2003, 2002 and 2001, merchandise sales to the affiliate were approximately \$973,714, \$1,054,000 and \$1,792,000 respectively. During fiscal 2003, the affiliate ceased operations, and all outstanding amounts due the Company from the affiliate were repaid by another affiliate pursuant to its guarantee. The full collection of all amounts due from the affiliate totaling \$1,639,000, was accounted for as a non-cash bad debt expense of the Company, offset by an equal capital contribution reflected as additional paid-in capital.

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 entered 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, 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. 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, 2005, 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.

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 1997 Merger. 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 reflected as a charge to equity.

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The Company uses the services of an affiliate Red Apple Medical, Inc., 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 2003, 2002 or 2001.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Fees Incurred by the Company for BDO Seidman, LLP

The following table shows the fees paid or accrued by the Company for audit and other services provided by BDO Seidman, LLP for fiscal 2003 and 2002.

	2003	2002
	----	----
Audit Fees (1)	\$219,000	\$ 140,250
Audit-Related Fees (2)	150,750	110,875
Tax Fees (3)	0	7,500
All Other Fees (4)	0	0
Total	\$369,750	\$258,625

The Audit Committee has delegated to the Chair of the Audit Committee the authority to pre-approve audit-related and non-audit services not prohibited by law to be performed by the Company's independent auditors. All of the Audit-Related Fees, Tax Fees, and All Other Fees were approved by the Audit Committee, and were performed by full time permanent employees of BDO Seidman, LLP.

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- (1) Audit fees represent fees for professional services provided in connection with the audit of our financial statements and review of our quarterly financial statements and audit services provided in connection with other statutory or regulatory filings.
- (2) Audit-related fees consist primarily of accounting consultations, employee benefit plan audits, services related to potential business acquisitions specifically related to the acquisition of King's Supermarkets, Inc.
- (3) For fiscal 2003 and 2002, respectively, tax fees principally included tax advice and tax planning fees of \$ 0, and \$ 7,500 respectively.
- (4) All other fees principally include information system security services. There were no such fees in fiscal 2003 and fiscal 2002.

### PART IV

#### Item 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K.

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

##### 1. Consolidated Financial Statements:

The Consolidated Financial Statements filed as part of this Form 10-K

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are listed in the "Index to Consolidated Financial Statements" in Item 8.

2. Consolidated Financial Statement Schedule:

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

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

GRISTEDE'S FOODS, INC. AND SUBSIDIARIES

INDEX TO S-X SCHEDULE

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Schedule II -- -Valuation & Qualifying Accounts.....	36

INDEPENDENT AUDITORS' REPORT

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

The audits referred to in our report dated April 2, 2004, relating to the consolidated financial statements of Gristede's Foods, Inc. and subsidiaries, which is contained in Item 8 of this Form 10-K, included the audits of the financial statement schedule listed in the accompanying index for each of the three fiscal years in the period ended November 30, 2003. This financial statement schedule is the responsibility of management. Our responsibility is to express an opinion on this schedule based on our audits.

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

New York, NY  
April 2, 2004

/s/ BDO Seidman, LLP  
BDO Seidman, LLP

Independent Auditors' Report



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

We have audited the accompanying consolidated balance sheets of Gristede's Foods, Inc. and subsidiaries (the "Company") as of November 30, 2003, and December 1, 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gristede's Foods, Inc. and subsidiaries as of November 30, 2003, and December 1, 2002, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

New York, NY  
April 2, 2004

/s/ BDO Seidman, LLP

-----  
BDO Seidman, LLP

Gristede's Foods, Inc.  
and Subsidiaries

Consolidated Balance Sheets

	November 30, 2003	December 1,
Assets		
Current:		
Cash	\$ 693,274	\$ 576
Accounts receivable - net of allowance for doubtful accounts of \$572,190 and \$481,000 respectively	11,840,262	7,659
Inventories	44,545,385	37,601
Due from related parties - trade	--	251

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Prepaid expenses and other current assets	3,645,321	2,825
-----		
Total current assets	60,724,242	48,914
-----		
Property and equipment		
Furniture, fixtures and equipment	21,594,508	20,159
Capitalized equipment leases	36,168,381	34,300
Leasehold interests and improvements	63,986,788	59,323
-----		
	121,749,677	113,783
Less: Accumulated depreciation and amortization	56,268,219	48,474
-----		
Net property and equipment	65,481,458	65,308
Deposits and other assets	897,430	1,120
Due from related parties - trade	--	1,225
Other assets	2,253,000	4,043
-----		
	\$129,356,130	\$120,612
-----		

The accompanying notes are an integral part of these financial statements.

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Gristede's Foods, Inc  
and Subsidiaries

Consolidated Balance Sheets

	November 30, 2003	Decem
-----		
Liabilities and Stockholders' Equity		
Current:		
Accounts payable, trade	\$ 44,604,655	\$
Accrued payroll, vacation and withholdings	3,666,344	
Accrued expenses and other current liabilities	3,331,761	
Capitalized lease obligation - current portion	5,677,142	
Current portion of long-term debt	2,650,740	
Due to affiliates - trade	469,175	
-----		
Total current liabilities	60,399,817	
Long-term debt-noncurrent portion	25,899,803	
Due to affiliates	22,008,258	
Capitalized lease obligation - noncurrent portion	12,084,252	
Deferred rent	6,162,749	
-----		
Total liabilities	126,554,879	
-----		
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.02 par value - shares authorized		
25,000,000; issued and outstanding 19,636,574	392,732	

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Additional paid-in capital	17,865,302	
Retained earnings (deficit)	(15,456,783)	
-----		
Total stockholders' equity	2,801,251	
-----		
	\$ 129,356,130	\$
-----		

The accompanying notes are an integral part of these financial statements.

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Gristede's Foods, Inc.  
and Subsidiaries  
Consolidated Statements of Operations

	52 Weeks Ended November 30, 2003	52 Weeks End December 1, 2002
-----		
Sales	\$ 279,686,646	\$ 250,732,700
Cost of sales	167,391,201	151,435,000
-----		
Gross profit	112,295,445	99,297,700
Store operating, general and administrative expenses	94,469,217	79,175,700
Pre-store opening startup costs	530,894	741,500
Bad debt expense	1,731,436	72,000
Depreciation and amortization	9,618,491	7,989,600
Non-store operating expenses:		
Administrative payroll and fringes	8,195,782	7,125,000
General office expense	2,613,791	1,993,100
Professional fees	402,392	477,700
Corporate expense	261,473	234,400
Net Insurance Proceeds - Northeast Blackout	(1,911,115)	--
Insurance proceeds and grants - terrorist attack and theft	--	(587,300)
Casualty loss - terrorist attack	--	--
Write off of King's acquisition costs	1,285,182	--
Litigation Settlement	3,250,000	--
-----		
Operating income (loss)	(8,152,098)	2,075,600
-----		
Other income (expense):		
Interest expense	(3,103,891)	(2,967,100)
Interest income	3,508	5,100
Other income (expense)	(292,482)	--
-----		
Total other expense	(3,392,865)	(2,962,000)
-----		
Income (loss) before provision	(11,544,963)	(886,400)

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for income taxes		
Provision for income taxes	48,508	40,0
-----		
Net income (loss)	\$ (11,593,471)	\$ (926,4
Net income (loss) per share of common stock - basic and diluted:	\$ (0.59)	\$ (0.
-----		
Weighted average common shares Outstanding	19,636,574	19,636,5
-----		

The accompanying notes are an integral part of these financial statements.

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Gristede's Foods, Inc.  
and Subsidiaries  
Consolidated Statements of  
Stockholders' Equity

	Common stock		Additional paid- in capital
	Number of Shares	Amount	
-----			
Balance, December 3, 2000	19,636,574	\$ 392,732	\$ 14,136,674
Net income	--	--	--
Balance, December 2, 2001	19,636,574	392,732	14,136,674
Net loss	--	--	--
Balance, December 1, 2002	19,636,574	392,732	14,136,674
Capital contribution in connection of funding of company costs	--	--	3,728,628
Net loss	--	--	--
-----			
Balance, November 30 , 2003	19,636,574	\$ 392,732	\$ 17,865,302
-----			

The accompanying notes are an integral part of these financial statements.

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Gristede's Foods, Inc.

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and Subsidiaries

Consolidated Statements of Cash Flows

	52 Weeks Ended November 30, 2003	52 Wee December
<hr/>		
Cash flows from operating activities:		
Net income (loss)	\$ (11,593,471)	\$
Adjustments to reconcile income / (loss) to net cash provided by operating activities:		
Depreciation and amortization	9,618,491	7
Allowance for doubtful accounts	91,139	
Gain on sale of store	--	
Capital contribution in connection of funding of company costs	1,575,000	
Changes in operating assets and liabilities:		
Accounts receivable	(4,271,849)	(1
Due from related parties - trade	1,476,665	
Due from related parties - other	--	
Inventories	(6,944,215)	(5
Prepaid expenses and other current assets	(819,337)	
Other assets	906,797	(1
Accounts payable, trade	11,165,693	6
Accrued payroll, vacation and withholdings	488,410	
Accrued expenses and other current liabilities	988,107	
Due to affiliates - trade	70,263	
Deferred rent	1,106,502	
<hr/>		
Net cash provided by operating activities	3,858,195	6
<hr/>		
Cash flows from investing activities:		
Proceeds from sale of store	--	
Capital expenditures	(6,040,325)	(8
<hr/>		
Net cash used in investing activities	(6,040,325)	(8
<hr/>		
Cash flows from financing activities:		
Repayments of long term debt	(2,299,999)	(1
Payments on capitalized lease obligations	(4,720,404)	(3
Proceeds from bank loans	--	7
Capital contribution in connection of funding of company costs	2,153,628	
Net advances from affiliates	7,165,821	
<hr/>		
Net cash provided by (used in) financing activities	2,299,046	1
<hr/>		
Net increase (decrease) in cash	116,916	
Cash, beginning of period	576,358	
<hr/>		
Cash, end of period	\$ 693,274	\$
<hr/>		
Supplemental disclosures of cash flows		
Cash paid for interest	3,103,891	\$ 2
Cash paid for (received from) income taxes	(5,475)	
<hr/>		
Supplemental disclosure of non-cash investing and financing activities		
Capital leases - property and equipment and other assets	\$ 2,727,765	\$ 10

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The accompanying notes are an integral part of these financial statement.

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Gristede's Foods, Inc.  
and Subsidiaries

Notes to Consolidated Financial Statements

1. Business and Basis of Presentation

Gristede's Foods, Inc. and subsidiaries (the "Company") operates 46 supermarkets, three pharmacies and a distribution facility in the New York metropolitan area. On August 12, 1999, the Company changed its name from Gristede's Sloan's Inc., ("Sloan's") to Gristede's Foods, Inc., to reflect its strategy of changing its "Sloan's" banner locations to "Gristede's" subsequent to a store remodeling.

On November 10, 1997, the Company acquired certain assets, net of liabilities, of 29 selected supermarkets and a wholesale distribution business ("The Food Group") controlled by John Catsimatidis (the "majority shareholder") of the Company. The transaction was accounted for as the acquisition of Sloan's by The Food Group pursuant to Emerging Issues Task Force 90-13 as a result of The Food Group obtaining control of Sloan's after the transaction. The assets and liabilities of The Food Group (the "Acquiror") are recorded at their historical cost. The assets and liabilities of Sloan's were recorded at their fair value to the extent acquired. Consideration for the transaction was based on an aggregate of \$36,000,000 in market value of the Company's common stock and the assumption of \$4,000,000 of liabilities. The Company issued 16,504,298 shares of common stock on the date of the acquisition based on a market price of \$2.18 per share.

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Fiscal Year

The Company's fiscal year ends on the Sunday closest to November 30. The fiscal years ended November 30, 2003, December 1, 2002, and December 2, 2001 all include 52 weeks.

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### Cash and Cash Equivalents

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

### Revenue Recognition

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

### Deferred Income

In accordance with Emerging Issues Task Force Statement No. 02-16 "Accounting by a Customer (Including Reseller) for Certain Consideration Received from a Vendor", rebates received from vendors that are based on future purchases are initially deferred and are recognized as a reduction of cost of goods sold based on a systematic allocation as the specific milestones are achieved. Rebates not tied directly to purchases are recognized as a reduction of cost of goods sold on a straight-line basis over the related contract term.

### Store Pre-opening Expenses and Closing Costs

Costs incurred prior to the opening of a new store, associated with a remodeled store, or related to the opening of a distribution facility are charged against earnings as pre-store opening start-up costs when incurred. When a store is closed, the Company expenses unrecoverable costs and accrues a liability equal to the present value of the remaining lease obligations, net of expected sublease income.

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

### Significant Concentrations

During fiscal 2003, 2002, and 2001, the Company purchased approximately 35%, 40%, and 39% respectively, of its merchandise from a single supplier. If the Company's relationship with this supplier were disrupted, the Company could purchase from other suppliers without negative impact on its business.

### Inventories

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

### Property, Equipment, Depreciation and Amortization

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

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its own internal construction crew. Amounts capitalized for these employees related to store renovations and new store construction were \$2,403,477 and \$2,493,677 for fiscal 2003 and 2002, respectively.

### Software Costs

The Company follows the provisions of Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires the capitalization of certain internally generated software costs. In fiscal 2003 and 2002 the Company capitalized \$613,057 and \$1,175,000 of such software costs, respectively. Such software is amortized over three years and for fiscal 2003, 2002 and 2001, the Company recorded amortization expense of \$308,833, \$210,000, and \$18,000 respectively.

### Leases

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

### Advertising Expense

In accordance with EITF No. 02-16, reimbursements of advertising costs are characterized as a reduction of advertising expenses. Prior to the adoption of EITF 02-16 in the first quarter of 2003, such reimbursements were characterized as a reduction of costs of goods sold. The Company expenses advertisement costs when the advertisement is first shown. During 2003, 2002, and 2001, \$1,394,169, \$2,180,285, and \$1,572,963 of advertising costs were expensed, respectively, net of cooperative advertising income of \$629,045 in 2003.

### Other Assets

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

### Income Taxes

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

### Accrued Self-Insurance

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

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

### Use of Estimates

The preparation of financial statements in conformity with generally accepted



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accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, income and expenses and disclosures of contingencies. Actual results could differ from those estimated.

### Stock-Based Compensation Plans

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

The Company has chosen to account for all stock-based compensation arrangements under APB Opinion No. 25 with related disclosures under SFAS No. 123.

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

	2003 -----	2002 -----	2001 -----
Income (loss), as reported	\$(11,593,471)	\$(926,407)	\$275,057
Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of related taxes	-	(2,900)	(34,750)
Pro forma income (loss)	\$(11,593,471)	\$(929,307)	\$240,487
Earnings (loss) per share			
Basic, as reported	\$(0.59)	\$(0.05)	\$.01
Basic, pro forma	\$(0.59)	\$(0.05)	\$.01
Diluted, as reported	\$(0.59)	\$(0.05)	\$.01
Diluted, pro forma	\$(0.59)	\$(0.05)	\$.01

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

Fair Value of Financial Instruments

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

The fair value of long-term debt, consisting of the term loans and revolving loan payable as of November 30, 2003 and December 1, 2002 approximates the recorded book value because of the fluctuating interest rates. It was not practical to determine the fair value of the amount due to affiliates, because of the uncertain repayment terms.

### Long-Lived Assets

The Company reviews long-lived assets and certain identifiable assets related to those assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. If the undiscounted future cash flows of the enterprise are less than their carrying amounts, their carrying amounts are reduced to fair value and an impairment loss is recognized. No impairment losses have been necessary through November 30, 2003.

### Earnings (Loss) per Share

The Company follows SFAS No. 128, "Earnings Per Share," ("EPS") which requires a presentation of basic EPS and diluted EPS. Basic EPS excludes dilution and is computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS assumes conversion of convertible debt and the issuance of common stock for all other potentially dilutive equivalent shares outstanding. Diluted EPS is the same as basic EPS since the options which could potentially dilute basic EPS were anti-dilutive for the periods presented. Potential common shares of 1,170,500, 1,253,000 and 1,355,500 related to the Company's outstanding stock were excluded from the computation of diluted net loss per share for the years ended November 30, 2003, December 1, 2002 and December 2, 2001 because their effect on net loss per share is anti-dilutive.

### Reclassification

Certain reclassifications were made to the fiscal 2002 and 2001 consolidated financial statements to conform to the fiscal 2003 presentation.

### Recent Accounting Pronouncements

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces 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 No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on its financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". SFAS No. 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation." Although it does not require use of fair value method of accounting for stock-based employee compensation, it does provide alternative methods of transition. It also amends the disclosure

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provisions of Statement 123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS No. 148's amendment of the transition and annual disclosure requirements are effective for fiscal years ending after December 15, 2002. The amendment of disclosure requirements of Opinion No. 28 are effective for interim periods beginning after December 15, 2002. The Company will continue to use the intrinsic value method of accounting as allowed under SFAS No. 148 for stock-based compensation.

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

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 March 15, 2004.

In December 2003, the FASB issued a revision to Interpretation No. 46 "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46R or the "Interpretation"). FIN 46R clarifies application of "ARB No. 51, Consolidated Financial Statements," to certain entities in which equity investors 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. FIN 46R requires the consolidation of these activities, known as variable interest entities ("VIE"s) by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

Among the changes, the revisions of FIN 46R: (1) clarified some requirements of the original FIN 46, which had been issued in January 2003, (2) eased some implementation problems, and (3) added new scope exceptions. Fin 46R deferred the effective date of the interpretation for public companies to the end of the first reporting period ending after March 15, 2004, except that all public companies must at a minimum apply the provisions of the interpretation to

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entities that were previously considered "special purpose entities" under the FASB literature prior to the issuance of FIN 46 by the end of the first reporting period ending after December 15, 2003. The Company is currently evaluating the effect that the adoption of FIN 46 will have on its financial position, cash flows and results of operations.

In November 2003, the EITF reached a consensus on EITF No. 03-10, "Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers." EITF No. 03-10 addresses the accounting for manufacturer sales incentives offered directly to consumers, including manufacturer coupons. The consensus applies to new arrangements, including modifications to existing arrangements, entered into in fiscal periods beginning after November 25, 2003. Adoption of EITF No. 03-10 is not expected to have a material effect on the Company's financial statements.

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

### 3. Related Party Transactions

(a) On February 6, 1998, the Company agreed to purchase substantially all of the assets and assumed certain of the liabilities of a supermarket located at 1644 York Avenue, New York City, that was owned by a corporation controlled by 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, 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. 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, 2005, 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 as of May, 2000.

The affiliates' intention in entering into these two operating agreements

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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.

(b) Certain stores have entered into capital and operating leases with an affiliate, Red Apple Lease Corporation, a company wholly owned by the majority stockholder. Such leases are primarily for store operating equipment. Obligations under capital leases at November 30, 2003, and December 1, 2002 were \$2,697,250 and \$3,435,385 respectively and require monthly payments of \$76,790 through March 2007.

The Company leases ten locations: a 25,000 square foot warehouse, its office facilities and eight store locations from Red Apple Real Estate, Inc., a corporation wholly owned by the majority stockholder. During fiscal 2003, 2002, and 2001 the Company's total expense for rent and real estate taxes under such leases was \$3,876,165, \$2,469,000, and \$1,610,000 respectively. The lease terms provide for aggregate rent and real estate taxes of \$5,098,927 per year in lease payments for fiscal 2004. The leases are triple net whereby the tenant pays all real estate taxes, insurance and maintenance (See Note 6).

Certain stores have entered into capital leases with an affiliate, United Acquisition Leasing Corp. (a company wholly owned by the majority shareholder). Such leases are primarily for store equipment. Obligations under capital leases at November 30, 2003, and December 1, 2002, were \$3,899,970, and \$4,030,094 respectively, and require monthly payments of \$100,525 through May 30, 2008.

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

(c) 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, Gristede's NY LLC, a company wholly owned by the majority stockholder, 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 November 30, 2003 were \$4,468,920 and require monthly payments of \$79,156 through February 2008 and a balloon payment of \$1,629,156 at such time.

In October 2002, in connection with the foregoing, Gristede's NY LLC, a company wholly owned by the majority stockholder, received a term loan of \$5,000,000 from Commerce Bank, N.A.. The loan is guaranteed by Gristede's Foods NY, Inc. (a wholly-owned subsidiary of Namdor, Inc.), and the Company's subsidiaries Namdor Inc, and City Produce Operating Corp., and secured by a pledge of all of the capital stock of Gristede's Foods NY, Inc. The loan had a balance of \$ 4,646,939 at November 30, 2003.

(d) Due from related parties - trade, represents amounts due from an affiliated company for merchandise shipped from the Company's subsidiary City Produce Operating Corp., in the ordinary course of business, as well as management fees receivable for administrative and managerial services performed for the

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affiliated company by the Company. Amounts receivable from the affiliate were guaranteed by a company controlled by the majority stockholder. During fiscal years 2003, 2002, 2001, merchandise sales to the affiliate were approximately \$973,714, \$1,054,000 and \$1,792,000 respectively. During fiscal 2003 the affiliate ceased operations and amounts due the Company from the affiliate were repaid by another affiliate pursuant to its guarantee. The full collection of all amounts due from the affiliate totaling \$1,639,000, was accounted for as a non-cash bad debt expense, offset by an equal capital contribution reflected as additional paid-in capital.

(e) The Company uses the services of an affiliate Red Apple Medical, Inc. a corporation wholly-owned by the majority stockholder, 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 an account controlled by the agent. Such amounts are reimbursed by the Company to the agent. No fees have been paid to this entity for the fiscal years 2003, 2002, and 2001.

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

#### 4. Other Assets

Additions in 2003 totaling \$509,623 consist of \$177,726 in debt costs, \$300,000 in customer lists, \$31,897 of deferred acquisition and financing costs.

At November 30, 2003:	Estimated Useful Life # of years	Cost	Accumulated amortization	Net
-----	-----	----	-----	----
Acquisition costs, consisting mainly of professional fees	5 to 10 yrs	\$1,463,700	\$1,458,100	
Non-compete covenants	5 yrs	1,565,000	1,222,000	
Debt costs	5 yrs	1,400,000	1,002,000	
Prescription lists	5 yrs	2,475,600	971,100	
Other	5 yrs	114,200	112,300	
Totals		\$7,018,500	\$4,765,500	
-----				
At December 1, 2002:		Cost	Accumulated amortization	Net
-----		----	-----	----
Acquisition costs, consisting mainly of professional fees	5 to 10 yrs	\$1,471,848	\$1,205,381	
Non-compete covenants	5 yrs	1,565,316	1,017,133	
Debt costs	5 yrs	1,222,722	812,036	
Costs relating to Kings acquisition	-	1,153,380	--	

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Prescription lists	5 yrs	2,175,582	528,146
Other	5 yrs	114,204	96,378
-----			
Totals		\$7,703,052	\$3,659,074
-----			

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

2004	\$408,987
2005	407,035
2006	407,035
2007	407,035
2008	406,602

Costs relating to the Kings acquisition - The Company attempted to acquire Kings Super Markets, Inc., a supermarket chain operating mainly in Northern New Jersey, from its UK parent Marks & Spencer, plc., but was not successful. The Company incurred acquisition costs (primarily professional fees) in the total amount of \$1,285,182, of which \$ 789,102 was reimbursable and paid by United Acquisition Corp. During the third quarter ended August 31, 2003, \$800,000 of previously capitalized costs were charged to operations as it was determined such costs did not have future value; at fiscal year ended November 30, 2003, the remaining \$485,182 in capitalized costs were charged to operations. Amounts reimbursable and paid for by United Acquisition Corp., were accounted for as a capital contribution and reflected as additional paid-in capital

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 Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

Prescription lists - Prescription lists consist of customer lists purchased from other pharmacies. There was one additional pharmacy purchased in fiscal 2002.

5. Due to Affiliates

Amounts due to affiliates, primarily United Acquisition Corp., a corporation indirectly wholly owned by the majority shareholder, represent liabilities in connection with the consummation of the Merger as discussed in Note 1 and additional advances made by the affiliate since the Merger. The 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 certain other affiliates has been offset against the amounts due to United Acquisition Corp. The net amount due to affiliates at November 30, 2003, and December 1, 2002 was \$22,008,258 and \$14,842,437 respectively. Of these amounts, \$22,008,258 and \$14,200,000 respectively, was subordinated to the Company's banks (See Note 8). The liability presently does not bear interest. However, the Company's credit agreement with its banks permits the Company to pay interest on such subordinated debt provided the Company has a positive net income.

As further discussed in footnote 12 of the Notes to Consolidated Financial Statements herein ("Impact of August 14-15, 2003 Northeast blackout), the

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Company has filed claims for losses incurred during the "blackout" and expects to recover a total amount of at least \$ 5.8 million, against which it has already received \$ 1 million. Pending final settlement of its insurance claim, United Acquisition Corp. agreed to provide the Company with an interim \$ 5 million liquidity credit facility available during fiscal 2004. The credit facility has no stated maturity date and does not presently bear interest.

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

### 6. Commitments and Contingencies

The Company operates primarily in leased facilities under non-cancellable operating leases expiring at various dates through 2040. Certain leases provide for contingent rents (based upon store sales exceeding stipulated amounts or on the Consumer Price Index), escalation clauses and renewal options ranging from five to twenty years. The Company is obligated under all leases to pay for taxes, insurance and common area maintenance expenses.

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

Rent expense, including taxes, insurance and maintenance costs, under non-cancelable operating leases, (including leases with related parties), for the fiscal years ended November 30, 2003, December 1, 2002, and December 2, 2001 respectively, is as follows:

	2003	2002	2001
-----	-----	-----	-----
Facilities: Base rents	\$22,666,444	\$16,979,121	\$15,805,048
Contingent rent	132,000	48,000	48,000
-----	-----	-----	-----
Rent expense - facilities	\$22,798,444	\$17,027,121	\$15,853,048
-----	-----	-----	-----
Equipment rental	\$ 302,458	\$ 246,294	\$ 644,961
-----	-----	-----	-----

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

Related party rent expense for facilities was \$3,430,914, \$2,418,054, and \$1,610,022 for the years ended November 30, 2003, December 1, 2002, and December 2, 2001 respectively.



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Future minimum lease commitments under noncancellable leases as of November 30, 2003 are:

Fiscal year ending	Equipment Operating Leases	Facilities--Minimum Commitment
2004	\$161,822	\$18,873,295
2005	57,338	18,596,868
2006	2,217	18,366,696
2007	-	16,775,328
2008	-	16,606,321
Thereafter	-	102,240,600
	\$221,377	\$191,459,108

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

The net book value of all assets under capital leases including related party capital leases at November 30, 2003, is approximately \$22.1 million.

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

The future net minimum lease payments under capital leases are as follows:

Fiscal year ending	
2004	\$7,127,762
2005	5,361,791
2006	4,806,753
2007	2,524,574
2008	866,624
Thereafter	-
	20,687,504
Less: Amount representing interest	2,926,110
Present value of net minimum lease payments	17,761,394
Less current obligation	5,677,142
Long term lease obligations	\$12,084,252

### 7. Income Taxes

The Company reports the effects of income taxes under SFAS No. 109, "Accounting for Income Taxes". The objective of income tax reporting is to recognize (a) the amount of taxes payable or refundable for the current year and (b) deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the financial statements or tax returns. Under SFAS No. 109, the

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measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. Realization of deferred tax assets is determined on a more-likely-than-not basis.

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

As of November 30, 2003 the Company had net operating loss carryforwards of approximately \$28.6 million, which expire through fiscal 2018.

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

The Company had net deferred tax assets of approximately \$ 6.8 million and \$3.2 million at November 30, 2003 and December 1, 2002, respectively. At November 30, 2003, and December 1, 2002, a valuation allowance has been provided against the deferred tax assets since management cannot predict, based on the weight of available evidence, that it is more likely than not that such assets will be ultimately realized. Accordingly no deferred income taxes were recognized in any of the periods.

The provision for income taxes for fiscal 2003 2002, and 2001 consisted of state and local income taxes, which amounted to approximately \$49,000, \$40,000, and \$99,000 respectively.

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Gristede's Foods, Inc.  
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Deferred tax (assets) liabilities at November 30, 2003 and December 1, 2002 are comprised of the following elements:

	2003	2002
	-----	-----
Net operating loss carryforwards	\$(12,568,000)	\$(9,099,000)
Deferred revenue taxable currently	(59,000)	(55,000)
Allowance for uncollectible accounts	(252,000)	(241,000)
Depreciation and amortization	9,806,000	6,218,000
Deferred rent not currently deductible	(2,712,000)	(2,528,000)
Charitable contribution carryforward	(47,000)	--
Accrued expenses	(1,012,000)	--
	-----	-----
Deferred tax (assets) liabilities, net	(6,845,000)	(5,705,000)
Less valuation allowance	6,845,000	5,705,000
	-----	-----
Net deferred tax	\$ --	\$ --

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8. Debt

In April 2004, the Company's credit agreement with a group of banks was amended to provide for a total facility of \$27,116,666, consisting of a \$17,000,000 revolving line of credit, and a \$10,116,666 term loan (the balance at April 1, 2004). The amendment was effective as of November 29, 2003, and the credit facility as amended provides for (i) an extension of the maturity date from November 28, 2004 to March 31, 2005 for the revolving line of credit, (ii) amortization of the term loan in amortizations totaling \$2,600,000, \$2,900,000, and \$3,200,000 during fiscal 2004, 2005 and 2006 respectively, and a \$2,500,000 balloon payment at maturity on December 3, 2006. (iii) certain financial covenants.

Long-term debt at November 30, 2003 and December 1, 2002 consists of the following:

	2003	2002
	-----	-----
Note payable - interest rate of 9%	\$ 66,666	\$ 66,666
Note payable \$224,704, in three equal annual installments, plus interest at 7.5%; final payment due September 2005	224,704	224,704
Term loan payable to banks due December 3, 2006	11,259,173	13,559,172
Revolving loans payable to banks due March 31, 2005	17,000,000	17,000,000
	-----	-----
	28,550,543	30,850,542
Less: Current Portion	2,650,740	2,500,740
	-----	-----
	\$25,899,803	\$28,349,802
	-----	-----

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

Interest on prime-based loans under the credit facility is payable monthly in

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

During the year ended November 30, 2003, the interest rates ranged from 4.31% to 4.57% on the LIBOR-based loans (total principal balance of \$28,100,000 at November 30, 2003) and from 5.25% to 5.50% on the prime-based loans (total principal balance of \$159,173 at November 30, 2003). The weighted average interest rate paid to the banks during the year ended November 30, 2003 was 4.40%.

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

Principal maturities of long-term debt as of November 30, 2003 are as follows:

Fiscal year ending	
2004	\$2,651,000
2005	19,975,000
2006	5,925,500
2007	0
2008	0
Total maturities	\$28,551,000

### 9. Retirement Plan

The Company participates in various defined contribution multi-employer union pension plans, which are administered jointly by management and union representatives, and which sponsor most full-time and certain part-time union employees. The pension expense for these plans approximated \$1,569,000 \$1,161,000, and \$1,052,000 for 2003, 2002, and 2001 respectively. The Company could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union- management plans.

### 10. Stock Option Plans

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

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

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

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

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations for its stock option grants. Generally,

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compensation expense is not recognized for stock option grants.

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

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

SFAS No. 123 requires the Company to provide pro forma information regarding net loss and earnings per share as if compensation cost of the Company's stock option plans had been determined in accordance with the fair value based method prescribed in SFAS No. 123. During 2003, 2002, and 2001 there were no options granted.

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

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

	Shares	Weighted Average Exercise Price
Balance, December 3, 2000	1,400,500	\$3.21
Granted:	--	--
Exercised:	--	--
Forfeited:	(45,000)	3.33
Balance, December 2, 2001	1,355,500	3.21
Granted:	--	--
Exercised:	--	--
Forfeited:	(102,500)	4.25
Balance, December 1, 2002	1,253,000	3.14
Granted:	--	--
Exercised:	--	--

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Forfeited:	(82,500)	2.99
-----		
Balance, November 30, 2003	1,170,500	\$3.14
-----		

Options exercisable as of November 30, 2003, and December 1, 2002 were 1,170,500 and 1,253,500 respectively.

All options prior to November 10, 1997 were assumed from Sloan's by the Company. The following table summarizes information as of November 30, 2003 concerning outstanding and exercisable options:

Options Outstanding				
Range of exercise prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number E
\$3.75	275,000	0.9	\$3.75	27
3.81	22,000	1.0	3.81	2
5.63	91,000	1.1	5.63	9
2.88	250,000	2.8	2.88	25
2.63	447,500	4.4	2.63	44
1.88	85,000	5.5	1.88	8
-----				
\$1.88-5.63	1,170,500	3.0	\$3.14	1,17
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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

11. Litigation

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

On January 13, 2000, plaintiffs commenced a class action lawsuit in the U.S. District Court for the Southern District of New York (hereinafter referred to as the "Ansoumana Action"). Their complaint alleged violations of the Fair Labor Standards Act and the New York Labor Law. Plaintiffs claimed damages for the differential between the amount they were paid by the Great American Delivery

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Service Company and what the minimum wage was in each specific year dating back to 1994. Thirty seven delivery workers have opted into the class action.

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

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

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

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

Thereafter, Great American was found to be in contempt of several orders and added as a party-defendant by motion to amend the complaint in the Ansoumana Action. In response to those proceedings, Great American filed for bankruptcy. Hence, the breach of contract action commenced by Great American against the Company was stayed. The Company transferred the case to the United States Bankruptcy Court in the Eastern District of New York. Great American's bankruptcy petition was dismissed. Great American's breach of contract action commenced in Nassau County has been stayed pending a resolution of the Ansoumana Action. Nevertheless, Great American posted a \$400,000 bond in the breach of contract action pending in Nassau County to obtain a preliminary injunction and the Company intends to seek to collect on the bond on the grounds that the preliminary injunction was improvidently granted.

In August 2003, the Company entered into a stipulation and agreement of settlement, pursuant to which the Company will be obligated to pay \$2,600,000 plus up to \$650,000 in legal fees, with any remaining amount to be added to the class settlement. The full amount of the proposed settlement will be shared approximately 50/50 by the Company and an affiliate controlled by John A. Catsimatidis. Payment of the legal fees is due in the same percentage installments as the settlement amount, commencing the later of (i) November 28, 2003, or (ii) 10 days after the court approves the payment of attorneys fees and costs. In December 2003, the court approved the proposed settlement as fair, and entered a final judgment in the matter.

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

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An initial payment of \$1.3 million (50%) was made on October 16, 2003, by an affiliate, controlled by John A. Catsimatidis, on behalf of the Company. The balance of the proposed settlement amount will be paid by the Company and is due in equal installments of \$650,000 on the first and second anniversary of the initial payment, without interest. The plaintiffs have been granted a conditional subordinated security interest in certain of the Company's assets to secure the payments of the settlement amount. Additionally, recoveries from a \$400,000 security bond posted by Great American / Baur shall be solely for the Company's benefit, with any such recovery used to prepay the Company's remaining obligations under the settlement.

The full amount of the proposed settlement (\$3,250,000), including legal fees, was recorded as a litigation settlement expense of the Company. Payments received to date from the affiliate were recorded as a capital contribution and a credit to additional paid-in capital; future affiliate reimbursements will be similarly recorded.

### 12. Impact of August 14-15, 2003 "Northeast blackout".

The Company suffered significant losses of perishable inventory during the "Northeast blackout" of August 14-15, 2003. To a lesser extent, there were also property repair and damage losses, and related expenses. The Company's inventory is insured for its retail selling price, and property is insured for its new replacement cost. The Company has filed claims for these losses and related expenses with its insurance carriers and expects to recover at least approximately \$5.8 million. The minimum claim for associated inventory costs and related expenses is approximately \$4 million, resulting in a minimum expected net insurance gain of approximately \$1.9 million, which is in lieu of filing separately for business interruption insurance and other expenses related to stocking, restocking and other costs associated with the "blackout". Machinery and other property are insured for their replacement cost. The insurance gain was recorded in the third quarter ended August 31, 2003, without separately accounting for the costs that go against such gain. The insurance carriers have acknowledged that the Company's losses are covered under its policy and have advanced the Company \$1 million against its insured claims. The Company is expecting final settlement of its claim prior to August 1, 2004.

### 13. Impact of the Terrorist Attacks of September 11, 2001

The Company has two stores in the World Trade Center area of Manhattan, which were forced to close as a result of the terrorist attacks of September 11, 2001. One store reopened for business on October 1, 2001, the other was renovated and reopened in May 2002. The Company suffered property damage losses, including inventory, costs to repair and clean fixtures and facilities and loss of revenue. Management filed claims for the above losses with its insurance carriers, including business interruption. The Company settled these claims with the insurance company in October 2002 for approximate net proceeds of \$1.5 million.

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Gristede's Foods, Inc.  
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Notes to Consolidated Financial Statements

### 14. Quarterly Financial Data (Unaudited) (in thousands, except per share data)



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Financial data for the interim periods of Fiscal 2003 and Fiscal 2002 is as follows:

	13 weeks ended March 2, 2003	13 weeks ended June 1, 2003	13 weeks ended August 31, 2003	Nov
Sales	\$74,595	\$70,992	\$64,698	
Gross Profit	29,159	28,944	26,312	
Net Income (loss)	(1,383)	(913)	(4,742)	
Net Income (loss) per share	\$(0.07)	\$(0.05)	\$(0.24)	
	13 weeks ended March 3, 2002	13 weeks ended June 2, 2002	13 weeks ended September 1, 2002	De
Sales	\$59,791	\$61,879	\$60,506	
Gross Profit	23,761	24,908	24,221	
Net Income (loss)	761	206	(777)	
Net Income (loss) per share	\$0.04	\$0.01	\$(0.04)	

Fiscal year 2003 included significant adjustments of the following: (i) Third quarter adjustment to account for bad debt expense of \$1,639,436 arising from one affiliate having paid in full the trade and other receivables it had guaranteed for another affiliate; (ii) Write off of previously capitalized costs associated with the unsuccessful acquisition of King's Supermarkets amounting to \$1,285,182, of which \$800,000 was recorded in the third quarter and \$485,182 in the fourth quarter. An affiliate reimbursed the Company \$789,102 in accordance with an arrangement for the funding of the acquisition costs and was accounted for as a contribution to additional paid -in-capital; (iii) Litigation settlement of \$3,250,000 relating to the Ansoumana v. et el pursuant to which the Company must pay \$2,600,00 plus \$650,000 in legal fees. \$1.3 million was recorded in the third quarter and \$1,950,000 was recorded in the fourth quarter; (iv) in the fourth quarter, the company recorded a favorable adjustment with regard to accrued real estate taxes totaling \$384,947.

The fourth quarter of fiscal 2002 included significant adjustments of the following: an inventory adjustment of \$304,000 to reflect the lower of cost or market and an accrual of \$213,000 relating to self-insurance health care costs.

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SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Balance At Beginning of	Additions Charged to Costs	Additions (Deductions) For Write-Offs
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DESCRIPTION OF DEDUCTIONS	Period	and Expenses	(Recoveries)
YEAR ENDED Dec. 2, 2001:			
Reserve and allowances deducted from asset accounts:			
Allowance for uncollectible accounts	\$150,000	\$250,354	\$12,646
YEAR ENDED Dec. 1, 2002:			
Reserve and allowances deducted from asset accounts:			
Allowance for uncollectible accounts	\$413,000	\$72,000	\$(4,000)
YEAR ENDED Nov. 30, 2003:			
Reserve and allowances deducted from asset accounts:			
Allowance for uncollectible accounts	\$481,000	\$139,377	(\$48,187)

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Exhibits

Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K of the fiscal year ended February 28, 1990 (the "1990 10-K").
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended February 27, 1994 (the "1994 10-KSB").
3.3	Certificate of Amendment of Certificate of Incorporation of the Company, dated November 4, 1997. Incorporated by reference to Exhibit 3.4 to the Registrant's Annual Report on Form 10-K for the transition period ended November 30, 1997 (the "Transition Period 10-K").
3.4	Certificate of Amendment of Certificate of Incorporation of the Company, dated August 13, 1999.
3.5	Certificate of Amendment of Certificate of Incorporation of the Company dated November 10, 2000.
3.6	Amended and Restated Bylaws of the Registrant. Incorporated by reference to Exhibit 3.2 to the 1990 10-K.
10.1	Form of Indemnification Agreement dated as of January 1, 1994 between the Registrant and each director of the Registrant. Incorporated by reference to Exhibit 10.11 to the 1994 10-KSB.

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- 10.2 Form of Indemnification Agreement dated as of January 1, 1994 between the Registrant and each officer of the Registrant. Incorporated by reference to Exhibit 10.12 to the 1994 10-KSB.
- 10.3 1994 Stock Option Plan. Incorporated by reference to Exhibit 10.12 of the Company's Annual Report on Form 10-KSB for the fiscal year ended February 26, 1995 ("1995 10-KSB").
- 10.4 Director Stock Option Plan. Incorporated by reference to Exhibit 10.13 of the Company's 1995 10-KSB.
- 10.5 Merger Agreement. Incorporated by reference to Exhibit A to the Company's definitive Proxy Statement for the Special and Annual Meeting of Stockholders of the Company held on October 31, 1997.
- 10.6 Management Agreement dated November 10, 1997 between Namdor Inc., G Remainder Corp. and S Remainder Corp. Incorporated by reference to Exhibit 10.7 to the Transition Period 10-K.
- 10.7 Agreement dated as of March 1, 2000 between G Remainder Corp. and Gristede's Operating Corp. Incorporated by reference to Exhibit 10.8 to the Company's annual report in Form 10-K for the fiscal year ended November 28, 1999 (the "1999 10-K").
- 10.8 1998 Stock Option Plan. Incorporated by reference to Exhibit 10.10 to the Transition Period 10-K.
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- 10.9 Agreement dated March 1, 2000 between John Catsimatidis and the Company. Incorporated by reference to Exhibit 10.11 to the 1999 10-K.
- 10.10 Agreement dated May 10, 2000 between S Remainder Corp and Namdor Inc. Incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended December 3, 2000.
- 10.11 Agreement dated December 3, 2000 between John Catsimatidis and the Company. Incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended December 3, 2000.
- 10.12 Amended and Restated Loan Agreement dated as of October 31, 2001 (the "Loan Agreement") among the Company, Citibank, Israel Discount Bank of New York, and Bank Leumi USA. Incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended December 2, 2001.
- \*10.13 Fifth Amendment dated as of November 29, 2003 to Loan Agreement.
11. Statement re: computation of per share income (loss). Not required.
- \*14.1 Code of Ethics pursuant to Section 406 of the Sarbanes-Oxley Act of 2002.
21. Listing of the Company's subsidiaries all of which are wholly owned by the Company.

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Subsidiaries -----	State of Incorporation -----
Namdor Inc.	New York
City Produce Operating Corp.	New York
Gristede's Foods NY Inc	New York
Gristede's Delivery Service, Inc	New York

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

- \*31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\*Filed herewith.

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

GRISTEDE'S FOODS, INC.

Dated: April 5, 2004

By: /s/John A. Catsimatidis  
-----  
John A. Catsimatidis  
Chairman of the Board

Signature -----	Title -----	Date ----
/s/John A. Catsimatidis ----- John A. Catsimatidis	Chairman of Board, President and Chief Executive Officer (Chief Executive Officer and Chief Operating Officer)	April 5,
/s/ Kishore Lall ----- Kishore Lall	Chief Financial Officer and Director	April 5,

