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GREAT ATLANTIC & PACIFIC TEA CO INC
Form 10-Q
October 17, 2003

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

FORM 10-Q

Mark One

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

For Quarter Ended September 6, 2003

OR

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

For the transition period from _____ to _____

Commission File Number 1-4141

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.

(Exact name of registrant as specified in charter)

Maryland

13-1890974

(State or other jurisdiction of
incorporation or organization)

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

2 Paragon Drive
Montvale, New Jersey 07645

(Address of principal executive offices)

(201) 573-9700

Registrant's telephone number, including area code

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 NO

As of September 8, 2003 the Registrant had a total of 38,517,218 shares of common stock - \$1 par value outstanding.

PART I - FINANCIAL INFORMATION

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ITEM 1 - Financial Statements

The Great Atlantic & Pacific Tea Company, Inc.
 Statements of Consolidated Operations
 (Dollars in thousands, except share and per share amounts)
 (Unaudited)

	12 Weeks Ended		Sept. 6,
	Sept. 6, 2003	Sept. 7, 2002	
Sales	\$ 2,443,700	\$ 2,327,182	\$ 5,6
Cost of merchandise sold	(1,784,774)	(1,667,850)	(4,1
Gross margin	658,926	659,332	1,5
Store operating, general and administrative expense	(679,839)	(666,939)	(1,5
(Loss) income from operations	(20,913)	(7,607)	(
Interest expense	(17,945)	(19,640)	(
Interest income	1,773	3,105	
Loss from continuing operations before income taxes	(37,085)	(24,142)	(
Provision for income taxes	(20,010)	(123,119)	
Loss from continuing operations	(57,095)	(147,261)	(
Discontinued operations (Note 2):			
(Loss) income from operations of discontinued businesses, net of tax	(21,750)	2,577	(
(Loss) gain on disposal of discontinued operations, net of tax	(4,845)	-	
(Loss) income from discontinued operations	(26,595)	2,577	
Net loss	\$ (83,690)	\$ (144,684)	\$ (
Net (loss) income per share - basic and diluted:			
Continuing operations	\$ (1.48)	\$ (3.82)	\$
Discontinued operations	(0.69)	0.06	
Net loss per share - basic and diluted	\$ (2.17)	\$ (3.76)	\$
Weighted average number of common shares outstanding	38,516,670	38,512,439	38,5
Common stock equivalents	635,554	422,850	3
Weighted average number of common and common equivalent shares outstanding	39,152,224	38,935,289	38,9

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See Notes to Quarterly Report

The Great Atlantic & Pacific Tea Company, Inc
 Statements of Consolidated Stockholders' Equity and Comprehensive Income
 (Dollars in thousands, except share and per share amounts)
 (Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit
	Shares	Amount		
28 Week Period Ended September 6, 2003				
Balance at beginning of period	38,515,806	\$ 38,516	\$ 459,411	\$ 61,387
Net loss				(63,410)
Other comprehensive income				
Stock options exercised	1,412	1	11	
Balance at end of period	38,517,218	\$ 38,517	\$ 459,422	\$ (2,023)

	Common Stock		Additional Paid-in Capital	Retained Earnings
	Shares	Amount		
28 Week Period Ended September 7, 2002				
Balance at beginning of period	38,367,628	\$ 38,368	\$ 456,753	\$ 254,896
Net loss				(142,809)
Other comprehensive income				
Stock options exercised	148,178	148	2,658	
Balance at end of period	38,515,806	\$ 38,516	\$ 459,411	\$ 112,087

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Comprehensive Income

	12 Weeks Ended		
	Sept. 6, 2003	Sept. 7, 2002	Sept. 6,
Net loss	\$ (83,690)	\$ (144,684)	\$ (
Foreign currency translation adjustment	(9,722)	(2,475)	
Reclassification adjustment for gains included in net loss, net of tax	-	-	
Net unrealized loss on derivatives, net of tax	(1,960)	(152)	
Other comprehensive (loss) income	(11,682)	(2,627)	
Total comprehensive loss	\$ (95,372)	\$ (147,311)	\$ (

See Notes to Quarterly Report

The Great Atlantic & Pacific Tea Company, Inc.
Consolidated Balance Sheets
(Dollars in thousands except share amounts)

September 6,
2003

(Unaudited)

ASSETS

Current assets:

Cash and cash equivalents	\$ 182,607
Accounts receivable, net of allowance for doubtful accounts of \$12,489 and \$9,799 at September 6, 2003 and	

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February 22, 2003, respectively	198,018
Inventories	678,704
Prepaid expenses and other current assets	43,860

Total current assets	1,103,189

Non-current assets:	
Property:	
Property owned	1,461,347
Property leased under capital leases	70,067

Property - net	1,531,414
Other assets	170,271

Total assets	\$ 2,804,874
	=====
 LIABILITIES & STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt	\$ 24,638
Current portion of obligations under capital leases	15,190
Accounts payable	547,966
Book overdrafts	118,026
Accrued salaries, wages and benefits	186,007
Accrued taxes	78,803
Other accruals	215,540

Total current liabilities	1,186,170

Non-current liabilities:	
Long-term debt	683,051
Long-term obligations under capital leases	80,286
Other non-current liabilities	392,882

Total liabilities	2,342,389

Commitments and contingencies	
Stockholders' equity:	
Preferred stock--no par value; authorized - 3,000,000 shares; issued - none	-
Common stock--\$1 par value; authorized - 80,000,000 shares; issued and outstanding - 38,517,218 and 38,515,806 shares at September 6, 2003 and February 22, 2003, respectively	38,517
Additional paid-in capital	459,422
Accumulated other comprehensive loss	(33,431)
(Accumulated deficit) retained earnings	(2,023)

Total stockholders' equity	462,485

Total liabilities and stockholders' equity	\$ 2,804,874
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See Notes to Quarterly Report

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The Great Atlantic & Pacific Tea Company, Inc.
 Statements of Consolidated Cash Flows
 (Dollars in thousands)
 (Unaudited)

	28

	Sept. 6, 20

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (63,410)
Income from discontinued operations	(14,027)

Loss from continuing operations	(77,437)

Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:	
Restructuring charge	(5,230)
Depreciation and amortization	147,243
Realized gain on sale of securities	-
Deferred income tax (benefit) provision	(5,496)
Loss (gain) on disposal of owned property	100
Other changes in assets and liabilities:	
(Increase) decrease in receivables	(7,989)
Decrease in inventories	7,651
(Increase) decrease in prepaid expenses and other current assets	(28,839)
Decrease in other assets	7,721
Increase (decrease) in accounts payable	17,440
Increase (decrease) in accrued salaries, wages and benefits	25,412
Decrease in other accruals	(5,595)
Decrease in other non-current liabilities	(47,921)
Other operating activities, net	(4,280)

Net cash provided by operating activities	22,780

CASH FLOWS FROM INVESTING ACTIVITIES:	
Expenditures for property	(75,864)
Proceeds from disposal of property	142,064

Net cash provided by (used in) investing activities	66,200

CASH FLOWS FROM FINANCING ACTIVITIES:	
Changes in short-term debt	-
Proceeds under revolving lines of credit	-
Payments on revolving lines of credit	(135,000)
Proceeds from long-term borrowings	16,016
Payments on long-term borrowings	(1,127)
Principal payments on capital leases	(7,203)
Increase in book overdrafts	15,413

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Deferred financing fees	(414)
Proceeds from exercises of stock options	12

Net cash used in financing activities	(112,303)

Effect of exchange rate changes on cash and cash equivalents	6,916

Net decrease in cash and cash equivalents	(16,407)
Cash and cash equivalents at beginning of period	199,014

Cash and cash equivalents at end of period	\$ 182,607
	=====

See Notes to Quarterly Report

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements

1. Basis of Presentation

The accompanying consolidated financial statements of The Great Atlantic & Pacific Tea Company, Inc. ("We," "Our," "Us" or "Our Company") for the 12 and 28 weeks ended September 6, 2003 and September 7, 2002 are unaudited and, in the opinion of management, contain all adjustments that are of a normal and recurring nature necessary to present fairly the financial position and results of operations for such periods. The consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Fiscal 2002 Annual Report on Form 10-K. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements include the accounts of our Company and all majority-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

2. Discontinued Operations

In February 2003, we announced the sale of a portion of our non-core assets, including nine of our stores in northern New England and seven stores in Madison, Wisconsin. In March 2003, we entered into an agreement to sell an additional eight stores in northern New England.

Upon the decision to sell these stores, we applied the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") to these properties held for sale. SFAS 144 requires properties held for sale to be classified as a current asset and valued on an asset-by-asset basis at the lower of carrying amount or fair value less costs to sell. In applying those provisions, we

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considered the binding sale agreements related to these properties as an estimate of the assets' fair value. As a result of the adoption of SFAS 144, \$22.1 million in net property, plant and equipment was reclassified as held for sale as of February 22, 2003, and included in "Prepaid expenses and other current assets" on our Consolidated Balance Sheets.

As of April 2003, all of the asset sales described above were completed, generating proceeds of \$137.6 million and resulting in a gain of \$81.4 million (\$47.2 million after tax). This gain was included in "(Loss) gain on disposal of discontinued operations, net of tax" on our Consolidated Statements of Operations for the 28 weeks ended September 6, 2003.

Also, during the first quarter of fiscal 2003, we adopted a formal plan to exit the Milwaukee, Wisconsin market, where our remaining 23 Kohl's stores are located, as well as our Eight O'Clock Coffee business through the sale and/or disposal of these assets.

Upon the decision to exit the remaining Kohl's stores and coffee business, we estimated the assets' fair market value using a probability weighted average approach based upon expected proceeds and recorded impairment losses on the property, plant and equipment of \$15.2 million, which is included in "(Loss) income from operations of discontinued businesses, net of tax" on our Consolidated Statements of Operations for the first quarter of fiscal 2003. As a result, \$16.4 million in net property, plant and equipment relating to our remaining properties held for sale, primarily our Kohl's stores and coffee business, were reclassified at June 14, 2003, and included in "Prepaid expenses and other current assets" on our Consolidated Balance Sheets. These assets will no longer be depreciated.

During the 12 weeks ended September 6, 2003, we closed the remaining Kohl's stores that had not been sold and recorded exit costs of \$25.1 million relating to future rent vacancy, \$7.2 million in severance charges and \$0.7 million in inventory markdowns.

As a result, at September 6, 2003, \$11.7 million of the northern New England and Kohl's exit costs were included in "Other accruals" and \$20.7 million in "Other non-current liabilities" on our Consolidated Balance Sheets. In addition, based upon further information relating to the disposal of these properties held for sale, we recorded additional impairment losses of \$3.7 million during the second quarter of fiscal 2003 to reduce the carrying value of certain of these assets.

We participate in various 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 who are not covered by our other pension plans. The decision to close our Kohl's stores and terminate our participation in these plans triggered our Company's liability for our unfunded vested benefits or other expenses under these jointly administered union/management plans. As a result, we recorded expense for these plans of approximately \$2.5 million and \$5.5 million for the 12 and 28 weeks ended September 6, 2003. In addition, we recorded \$1.0 million in expense relating to withdrawal from Kohl's health and welfare plan during the 28 weeks ended September 6, 2003. Such amounts as well as the impairment losses and exit costs described above are included in "(Loss) income from operations of discontinued businesses, net of tax" in our Consolidated Statements of Operations.

We have accounted for all of these separate business components as discontinued operations in accordance with SFAS 144. Amounts in the financial statements and related notes for all periods shown have been reclassified to reflect the discontinued operations. Summarized below are the operating results for the discontinued New England and Kohl's supermarkets and Eight O'Clock Coffee business, which are included in our Consolidated Statements of Operations, under the caption "(Loss) income from operations of discontinued businesses,

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net of tax".

	12 Weeks Ended		Sept. 6,
	Sept. 6, 2003	Sept. 7, 2002	
Sales	\$ 57,395	\$ 173,296	\$ 200,
Operating expenses	(96,732)	(168,853)	(257,
(Loss) income from operations	(39,337)	4,443	(57,
Benefit from (provision for) income taxes	17,587	(1,866)	24,
(Loss) income from operations of discontinued businesses	\$ (21,750)	\$ 2,577	\$ (33,
Depreciation and amortization	\$ -	\$ 3,104	\$ 1,

3. Long Lived Assets

We review the carrying values of our long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Such review is based upon groups of assets and the undiscounted estimated future cash flows from such assets to determine if the carrying value of such assets are recoverable from their respective cash flows. If such review indicates an impairment exists, we measure such impairment on a discounted basis.

We also review individual assets for impairment upon determination that such assets will not be used for their intended useful life. During the 12 and 28 weeks ended September 6, 2003, we recorded impairment losses on property, plant and equipment of \$4.2 million and \$19.4 million, respectively, compared to \$4.3 million and \$10.2 million recorded during the 12 and 28 weeks ended September 7, 2002, respectively. Of these amounts, \$0.5 million in both fiscal 2003 periods presented and all of the fiscal 2002 amounts related to U.S. Retail stores that were or will be closed in the normal course of business and are included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations. The remaining impairment losses we recorded of \$3.7 million and \$18.9 million during the 12 and 28 weeks ended September 6, 2003, respectively, related to stores closed as a result of our exit of the Kohl's business and are included in our Consolidated Statements of Operations under the caption "(Loss) income from operations of discontinued businesses, net of tax" (see Note 2 of our Consolidated Financial Statements). Based upon current trends, there may be additional future impairments on long lived assets, including the potential for impairment of assets that are held and used. In certain cases, such impairment testing could also trigger a test for the recoverability of goodwill under SFAS 142 "Goodwill and Other Intangible

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Assets."

4. Income Taxes

The income tax provision recorded for the 28 weeks ended September 6, 2003 and September 7, 2002 reflects our estimated expected annual tax rates applied to our respective domestic and foreign financial results.

SFAS No. 109 "Accounting for Income Taxes" ("SFAS 109") requires that a valuation allowance be created and offset against a net deferred tax asset if, based on existing facts and circumstances, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Based upon our continued assessment of the realization of our U.S. net deferred tax asset and our historic cumulative losses, and in particular, the significant increase in U.S. operating losses during the second quarter of fiscal 2002, we concluded that it was appropriate to establish a full valuation allowance for our U.S. net deferred tax asset in the amount of approximately \$133.7 million during the 28 weeks ended September 7, 2002. During the remainder of fiscal 2002, the valuation allowance was increased by an additional \$32.9 million. For the 12 and 28 weeks ended September 6, 2003, the valuation allowance was increased by \$38.8 million and \$35.8 million, respectively. To the extent that our U.S. operations generate taxable income in future periods, we will reverse the income tax valuation allowance. In future periods, U.S. earnings or losses will not be tax effected until such time as the certainty of future tax benefits can be reasonably assured.

We had a net current deferred tax asset which is included in "Prepaid expenses and other current assets" on our Consolidated Balance Sheets totaling \$0.9 million and a net non-current deferred tax liability which is included in "Other non-current liabilities" on our Consolidated Balance Sheets totaling \$10.4 million at September 6, 2003 relating to our Canadian operations.

5. Wholesale Franchise Business

As of September 6, 2003, the Company served 64 franchised stores. These franchisees are required to purchase inventory exclusively from our Company, which acts as a wholesaler to the franchisees. We had sales to these franchised stores of \$178 million and \$160 million for the second quarters of fiscal 2003 and 2002, respectively, and \$428 million and \$381 million for the first 28 weeks of fiscal 2003 and 2002, respectively. In addition, we sublease the stores and lease the equipment in the stores to the franchisees. We also provide merchandising, advertising, accounting and other consultative services to the franchisees for which we receive a fee, which primarily represents the reimbursement of costs incurred to provide such services.

We hold as assets inventory notes collateralized by the inventory in the stores and equipment lease receivables collateralized by the equipment in the stores. The current portion of the inventory notes and equipment leases, net of an allowance for doubtful accounts, amounting to approximately \$0.5 million and \$3.6 million, are included in "Accounts receivable" on our Consolidated Balance Sheets at September 6, 2003 and February 22, 2003, respectively. The long-term portion of the inventory notes and equipment leases amounting to approximately \$42.3 million and \$41.1 million are included in "Other assets" on our Consolidated Balance Sheets at September 6, 2003 and February 22, 2003, respectively.

The repayment of the inventory notes and equipment leases are dependent upon positive operating results of the stores. To the extent that the franchisees incur operating losses, we establish an allowance for doubtful accounts. We continually assess the sufficiency of the allowance on a store by store basis

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based upon the operating results and the related collateral underlying the amounts due from the franchisees. In the event of default by a franchisee, we reserve the option to reacquire the inventory and equipment at the store and operate the franchise as a corporate owned store.

Refer to Note 6 - Impact of New Accounting Pronouncements regarding our Company's analysis of our franchisees to determine if they are variable interest entities in accordance with FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 ("FIN 46").

Refer to Note 11 - Commitments and Contingencies regarding our pending class action lawsuit relating to our Canadian franchise business.

6. Impact of New Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS 145, "Rescission of FASB Statements 4, 44 and 64, Amendment of FASB Statement 13, and Technical Corrections". SFAS 145 rescinds the provisions of SFAS 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS 13 to require that certain lease modifications be treated as sale leaseback transactions. The provisions of SFAS 145 related to classification of debt extinguishment are effective for fiscal years beginning after May 15, 2002. In current and future periods, we have and will classify debt extinguishment costs within income from operations and reclassify previously reported debt extinguishments as such. The provisions of SFAS 145 related to lease modifications are effective for transactions occurring after May 15, 2002. The provisions of SFAS 145 related to lease modifications did not have a material impact on our financial position or results of operations.

In January 2003, the FASB issued FIN 46. FIN 46 addresses the consolidation of entities whose equity holders have either (a) not provided sufficient equity at risk to allow the entity to finance its own activities or (b) do not possess certain characteristics of a controlling financial interest. FIN 46 requires the consolidation of these entities, known as variable interest entities ("VIE's"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that is subject to a majority of the risk of loss from the VIE's activities, entitled to receive a majority of the VIE's residual returns, or both. FIN 46 applies immediately to variable interests in VIE's created or obtained after January 31, 2003. For variable interests in a VIE created before February 1, 2003, FIN 46 is applied to the VIE's no later than the end of the first reporting period ending after December 15, 2003 (the quarter and year ending February 28, 2004 for our Company). The Interpretation requires certain disclosures in financial statements issued after January 31, 2003, if it is reasonably possible that our Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective.

As discussed further in Note 5, our Company served 64 franchised stores as of September 6, 2003. These franchisees are required to purchase inventory exclusively from our Company, which acts as a wholesaler to the franchisees. Our exposure to loss as a result of our involvement with these franchisees includes our operating income generated from our wholesale segment as detailed in Footnote 9 "Operating Segments" and our equipment leases and inventory notes, which totaled \$42.8 million at September 6, 2003. We are currently in the process of analyzing the franchisees in accordance with FIN 46 to determine if any or all are VIE's. If we determine that these franchisees are VIE's, it is reasonably possible we are the primary beneficiary of these VIE's and thus would be required to consolidate these VIE's, as it is currently structured, upon FIN 46 becoming effective for our Company.

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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 provisions of SFAS 149 did not have a material impact on our financial position or results of operations.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 establishes standards for classification and measurement in the balance sheets for certain financial instruments which possess characteristics of both a liability and equity. Generally, it requires classification of such financial instruments as a liability. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003. For financial instruments in existence prior to May 31, 2003, SFAS 150 is effective for fiscal periods beginning after June 15, 2003 (i.e., our third quarter of fiscal 2003). We believe that the adoption of SFAS 150 will not have a material impact on our financial statements.

7. Asset Disposition Initiative

In fiscal 1998 and 1999, we announced a plan to close two warehouse facilities and a coffee plant in the U.S., a bakery plant in Canada and 166 stores including the exit of the Richmond, Virginia and Atlanta, Georgia markets. In addition, during the third quarter of fiscal 2001, we announced that certain underperforming operations, including 39 stores (30 in the United States and 9 in Canada) and 3 warehouses would be closed and/or sold, and certain administrative streamlining would take place.

As of September 6, 2003, we closed all of the above stores and facilities. The following table summarizes the activity related to the charges recorded for the aforementioned initiatives since the beginning of fiscal 2002:

	Occupancy	Severance and Benefits	Goodwill/ Fixed Assets	To
	-----	-----	-----	-----
Balance at				
February 23, 2002	\$ 143,700	\$ 22,137	\$ -	\$
Addition (1)	7,249	3,544	-	
Utilization (2)	(34,003)	(19,830)	776	
Adjustments (3)	(13,825)	889	(776)	
	-----	-----	-----	-----

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Balance at				
February 22, 2003	\$	103,121	\$	6,740
Addition (1)		3,120		-
Utilization (2)		(13,960)		(2,691)
Adjustments (3)		(6,778)		958
		-----		-----
Balance at				
September 6, 2003	\$	85,503	\$	5,007
		=====		=====

- (1) The additions to occupancy represent the present value of accrued interest related to lease obligations. The addition to severance during fiscal 2002 related to retention and productivity incentives that were accrued as earned.

- (2) Occupancy utilization represents vacancy related payments for closed locations. Severance utilization represents payments made to terminated employees during the period.

- (3) At each balance sheet date, we assess the adequacy of the balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. During fiscal 2003, we recorded net adjustments of \$5.8 million primarily related to reversals of previously accrued vacancy related costs due to favorable results of terminating and subleasing certain locations. During fiscal 2002, we recorded net adjustments of \$13.7 million primarily related to reversals of previously accrued vacancy related costs due to the following:
 - o Favorable results of assigning leases at certain locations of \$7.2 million;
 - o The decision to continue to operate one of the stores previously identified for closure due to changes in the competitive environment in the market in which that store is located of \$3.3 million; and
 - o The decision to proceed with development at a site that we had chosen to abandon at the time of the original charge due to changes in the competitive environment in the market in which that site is located of \$3.3 million.

As of September 6, 2003, we paid approximately \$54 million of the total original severance and benefits charge recorded, which resulted from the termination of approximately 4,500 employees. The remaining severance liability primarily relates to future obligations for early withdrawal from multi-employer union pension plans and individual severance payments which will be paid by the end of fiscal 2003.

At September 6, 2003, approximately \$16.0 million of the liability was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on our Consolidated Balance Sheets.

Included in our Consolidated Statements of Operations for the 12 and 28 weeks ended September 6, 2003 and September 7, 2002 are the sales and operating results of the aforementioned stores while they were open during the periods presented. The results of these operations are as follows:

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	12 Weeks Ended		28 Weeks Ended	
	Sept. 6, 2003	Sept. 7, 2002	Sept. 6, 2003	Sept. 7, 2002
Sales	\$ -	\$ 7,434	\$ 316	\$ 7,434
Operating loss	\$ -	\$ (932)	\$ (72)	\$ (932)

Based upon current available information, we evaluated the liability balance as of September 6, 2003 of \$91 million and have concluded that it is adequate. We will continue to monitor the status of the vacant properties and adjustments to the reserve balance may be recorded in the future, if necessary.

8. Stock Based Compensation

We apply the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") with pro forma disclosure of compensation expense, net income or loss and earnings per share as if the fair value based method prescribed by SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148") had been applied.

Had compensation cost for our stock options been determined based on the fair value at the grant dates for awards under those plans consistent with the fair value methods prescribed by SFAS 123 and SFAS 148, our net loss and net loss per share would have been reduced to the pro forma amounts indicated below:

	12 Weeks Ended		
	Sept. 6, 2003	Sept. 7, 2002	Sept. 6, 2003
Net loss, as reported:	\$ (83,690)	\$ (144,684)	\$ (63,690)
Deduct/(Add): Stock-based employee compensation income included in reported net income, net of related tax effects	-	-	-
Deduct: Total stock-based employee compensation expense determined	-	-	-

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under fair value based method for all awards, net of related tax effects	(1,422)	(1,996)	(3,
Pro forma net loss	\$ (85,112)	\$ (146,680)	\$ (66,
Net loss per share - basic and diluted:			
As reported	\$ (2.17)	\$ (3.76)	\$ (1
Pro forma	\$ (2.21)	\$ (3.81)	\$ (1

The pro forma effect on net loss and net loss per share may not be representative of the pro forma effect in future years because it includes compensation cost on a straight-line basis over the vesting periods of the grants.

The fair value of the option grants was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	12 Weeks Ended		
	Sept. 6, 2003	Sept. 7, 2002	Sept. 6 2003
Expected life	7 years	7 years	7 year
Volatility	49%	47%	49%
Risk-free interest rate range	2.71%-4.01%	3.85%-4.57%	2.71%-4.

9. Operating Segments

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chairman of the Board, President and Chief Executive Officer.

We currently operate in three reportable segments: United States Retail, Canada Retail and Canada Wholesale. The retail segments are comprised of retail supermarkets in the United States and Canada, while the wholesale segment is comprised of our Canadian operation that serves as the exclusive wholesaler to our franchised stores and serves as wholesaler to certain third party retailers.

The accounting policies for the segments are the same as those described in the

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summary of significant accounting policies included in our Fiscal 2002 Annual Report. We measure segment performance based upon income (loss) from operations.

Interim information on segments is as follows:

(Dollars in thousands)	12 Weeks Ended		
	September 6, 2003	September 7, 2002	September 2003
Sales			
U.S. Retail	\$ 1,735,013	\$ 1,715,173	\$ 3,993
Canada Retail	531,045	451,934	1,226
Canada Wholesale	177,642	160,075	428
Total Company	\$ 2,443,700	\$ 2,327,182	\$ 5,647
Depreciation and amortization			
U.S. Retail	\$ 50,002	\$ 49,281	\$ 119
Canada Retail	11,594	9,459	26
Canada Wholesale	-	-	
Total Company	\$ 61,596	\$ 58,740	\$ 145
(Loss) income from operations			
U.S. Retail	\$ (37,250)	\$ (31,123)	\$ (69)
Canada Retail	10,759	16,756	21
Canada Wholesale	5,578	6,760	14
Total Company	\$ (20,913)	\$ (7,607)	\$ (33)