GREAT ATLANTIC & PACIFIC TEA CO INC
Form 10-Q
October 19, 2004

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

FORM 10-Q

Mark One

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

For Quarter Ended September 11, 2004

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 [X] NO [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act. YES [X] NO [ ]

As of October 15, 2004 the Registrant had a total of 38,555,180 shares of common stock - $1 par value outstanding.

PART I - FINANCIAL INFORMATION

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. 11, 2004	Sept. 6, 2003 (As Restated See Note 3)	Sept. 11,
Sales	$ 2,490,559	$ 2,464,758	$ 5,7
Cost of merchandise sold	(1,795,046)	(1,773,689)	(4,1
Gross margin	695,513	691,069	1,6
Store operating, general and administrative expense	(740,021)	(711,111)	(1,6
Loss from operations	(44,508)	(20,042)	(
Interest expense	(22,078)	(17,945)	(
Interest income	768	574	
Minority interest in earnings of consolidated franchisees	(342)	446	
Loss from continuing operations before income taxes	(66,160)	(36,967)	(1
Benefit from (provision for) income taxes	1,614	(20,125)	
Loss from continuing operations	(64,546)	(57,092)	(1
Discontinued operations (Note 5):			
Income (loss) from operations of discontinued businesses, net of tax provision of $0 and tax benefit of $15,902 for the 12 weeks ended 9/11/04 and 9/06/03, respectively, and tax benefit of $0 and $21,696 for the 28 weeks ended 9/11/04 and 9/06/03, respectively	344	(19,684)	
(Loss) gain on disposal of discontinued operations, net of tax provision of $0 and $3,160 for the 12 weeks ended 9/11/04, and 9/06/03, respectively, and $0 and $31,853 for the 28 weeks ended 9/11/04 and 9/06/03, respectively	-	(6,911)	
Income (loss) from discontinued operations	344	(26,595)	
Cumulative effect of change in accounting principle - FIN 46-R, net of tax	-	-	
Net loss	$ (64,202)	$ (83,687)	$ (1
Net (loss) income per share - basic and diluted:			
Continuing operations	$ (1.68)	$ (1.48)	$
Discontinued operations	0.01	(0.69)	

Cumulative effect of a change in accounting principle - FIN 46-R	-	-	
Net loss per share - basic and diluted	$ (1.67)	$ (2.17)	$
Weighted average number of common shares outstanding	38,521,685	38,516,670	38,5
Common stock equivalents	281,061	635,554	3
Weighted average number of common and common equivalent shares outstanding	38,802,746	39,152,224	38,8

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	
	Shares	Amount	Paid-in Capital	Accumulated Deficit
28 Week Period Ended September 11, 2004				
Balance at beginning of period	38,518,905	$ 38,519	$ 459,579	$ (78,100)
Net loss				(107,048)
Other comprehensive income				
Stock options exercised	3,375	3	13	
Balance at end of period	38,522,280	$ 38,522	$ 459,592	$ (185,148)
28 Week Period Ended September 6, 2003 As Restated - See Note 3				
Balance at beginning of period, as previously stated	38,515,806	$ 38,516	$ 459,411	$ 61,387
Add adjustment for the cumulative effect on prior years of applying retroactively the new method of accounting for inventory (LIFO to FIFO)				17,462
Balance at beginning of period, as adjusted	38,515,806	38,516	459,411	78,849

Net loss				(71,742)
Other comprehensive income				
Stock options exercised	1,412	1	11	
Balance at end of period	38,517,218	$ 38,517	$ 459,422	$ 7,107

Comprehensive loss

	12 Weeks Ended		
	Sept. 11, 2004	(As Restated See Note 3) Sept. 6, 2003	Sept. 11,
Net loss	$ (64,202)	$ (83,687)	$ (1
Foreign currency translation adjustment	18,970	(9,520)	
Net unrealized (loss) gain on derivatives, net of tax	(381)	(1,960)	
Other comprehensive income (loss)	18,589	(11,480)	
Total comprehensive loss	$ (45,613)	$ (95,167)	$ (

Accumulated Other Comprehensive Loss Balances

	Foreign Currency Translation	Net Unrealized (Loss) Gain on Derivatives
Balance at February 28, 2004, As Restated - See Note 3	$ (23,892)	$ (158)
Current period change	12,197	454
Balance at September 11, 2004	$ (11,695)	$ 296
Balance at February 22, 2003	$ (62,496)	$ 3,015
Current period change, As Restated	29,972	(2,667)
Balance at September 6, 2003, As Restated	$ (32,524)	$ 348

See Notes to Quarterly Report

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

September 11,

	2004
ASSETS	
Current assets:	
Cash and cash equivalents	$ 276,834
Accounts receivable, net of allowance for doubtful accounts of $13,166 and $13,620 at September 11, 2004 and February 28, 2004, respectively	141,713
Inventories	728,925
Prepaid expenses and other current assets	61,812
Total current assets	1,209,284
Non-current assets:	
Property:	
Property owned	1,380,244
Property leased under capital leases	60,628
Property - net	1,440,872
Other assets	120,751
Total assets	$ 2,770,907
LIABILITIES & STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt	$ 2,274
Current portion of obligations under capital leases	11,878
Accounts payable	536,092
Book overdrafts	107,827
Accrued salaries, wages and benefits	180,973
Accrued taxes	71,320
Other accruals	246,672
Total current liabilities	1,157,036
Non-current liabilities:	
Long-term debt	829,770
Long-term obligations under capital leases	73,167
Other non-current liabilities	405,964
Minority interest in consolidated franchisees	6,592
Total liabilities	2,472,529
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 - 38,522,280 and 38,518,905 shares at September 11, 2004 and February 28, 2004, respectively	38,522
Additional paid-in capital	459,592
Accumulated other comprehensive loss	(14,588)
Accumulated deficit	(185,148)
Total stockholders' equity	298,378
Total liabilities and stockholders' equity	$ 2,770,907

See Notes to Quarterly Report

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

	28
	Sept. 11, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (107,048
Adjustments to reconcile net loss to net cash provided by operating activities:	
Asset disposition initiative	1,070
Property impairments	1,679
Depreciation and amortization	143,519
Deferred income taxes	(2,236
Loss on disposal of owned property	849
Gain on sale of discontinued operations	-
Cumulative effect of change in accounting principle - FIN 46-R	-
Other changes in assets and liabilities:	
Decrease (increase) in receivables	31,370
(Increase) decrease in inventories	(28,818
Increase in prepaid expenses and other current assets	(23,647
(Increase) decrease in other assets	(11,857
Increase in accounts payable	47,917
(Decrease) increase in accrued salaries, wages, benefits and taxes	(1,975
Increase in other accruals	7,169
Decrease in minority interest	(798
Decrease in other non-current liabilities	(6,514
Other operating activities, net	1,259
Net cash provided by operating activities	51,939
CASH FLOWS FROM INVESTING ACTIVITIES:	
Expenditures for property	(97,442
Proceeds from disposal of property	10,127
Net cash (used in) provided by investing activities	(87,315
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on revolving lines of credit	-
Proceeds from long-term borrowings	7,365
Principal payments on long-term borrowings	(33
Principal payments on capital leases	(6,458

Increase in book overdrafts	10,983
Deferred financing fees	(955
Proceeds from exercises of stock options	16
Net cash provided by (used in) financing activities	10,918
Initial impact of FIN 46-R	-
Effect of exchange rate changes on cash and cash equivalents	4,284
Net (decrease) increase in cash and cash equivalents	(20,174
Cash and cash equivalents at beginning of period	297,008
Cash and cash equivalents at end of period	$ 276,834

See Notes to Quarterly Report

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements
(Dollars in thousands, except share and per share amounts)

1. Basis of Presentation

The accompanying Consolidated Statements of Operations and Consolidated Statements of Cash Flows of The Great Atlantic & Pacific Tea Company, Inc. ("We," "Our," "Us" or "Our Company") for the 12 and 28 weeks ended September 11, 2004 and September 6, 2003, and the Consolidated Balance Sheets at September 11, 2004 and February 28, 2004, 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 accompanying consolidated financial statements also include the impact of adopting Financial Accounting Standards Board ("FASB") Interpretation No. 46 ("FIN 46-R"), "Consolidation of Variable Interest Entities - an interpretation of `Accounting Research Bulletin No. 51'," EITF Issue No. 03-10, "Application of EITF Issue No. 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor, by Resellers to Sales Incentives Offered to Consumers by Manufacturers" ("EITF 03-10"), and the change in our method of valuing certain of our inventories from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method during the first quarter of fiscal 2004. The consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Fiscal 2003 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, all majority-owned subsidiaries and franchise operations. Significant intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

2. Impact of New Accounting Pronouncements

In December 2003, the FASB issued SFAS 132-R, "Employer's Disclosure about Pensions and Other Postretirement Benefits" ("SFAS 132-R"). SFAS 132-R requires new annual disclosures about the type of plan assets, investments strategy, measurement date, plan obligations, and cash flows as well as the components of the net periodic benefit cost recognized in interim periods. The new annual disclosure requirements apply to fiscal years ending after December 15, 2003, except for the disclosure of expected future benefit payments, which must be disclosed for fiscal years ending after June 15, 2004. Interim period disclosures are generally effective for interim periods beginning after December 15, 2003. We have included the disclosures required by SFAS 132-R, including expected future benefit payments, in our consolidated financial statements for the year ended February 28, 2004. We have also included all newly required interim period disclosures for the 12 and 28 weeks ended September 11, 2004 and September 6, 2003 in Note 8 - Retirement Plans and Benefits.

In December 2003, the United States enacted into law the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act"). The Act establishes a prescription drug benefit under Medicare, known as "Medicare Part D," and a Federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FASB Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FAS 106-2"). Refer to Note 8 - Retirement Plans and Benefits regarding the impact of adoption of FAS 106-2 in our consolidated financial statements.

Refer to Note 3 - Restatement and Changes in Accounting regarding the impact of adoption of FIN 46-R and EITF 03-10 in our consolidated financial statements.

3. Restatement and Changes in Accounting

FIN 46-R

In December 2003, the FASB issued revised Interpretation No. 46, "Consolidation of Variable Interest Entities - an interpretation of `Accounting Research Bulletin No. 51'". FIN 46-R 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-R 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, is entitled to receive a majority of the VIE's residual returns, or both. FIN 46-R 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-R applies to VIE's no later than the end of the first reporting period ending after March 15, 2004 (the quarter ended June 19, 2004 for our Company).

Based upon the new criteria for consolidation of VIE's, we have determined that (i.) all of our franchised stores do not have sufficient equity at risk to allow them to finance their own activities, (ii.) we absorb the expected losses of all of our franchised stores, and (iii.) we have a de facto agency relationship with the franchisees in which the franchisees cannot sell, transfer, or encumber its interests in the franchise without our prior approval. Therefore, we are deemed the primary beneficiary and accordingly have included the franchisee operations in our consolidated financial statements as of February 23, 2003. As permitted by FIN 46-R, our Company elected to restate fiscal 2003's consolidated financial statements for the impact of adopting this interpretation for comparability purposes.

As of September 11, 2004, we served 65 franchised stores. These franchisees are required to purchase inventory from our Company, which acts as a wholesaler to the franchisees. We had sales to these franchised stores of $185 million and $177 million for the 12 weeks ended September 11, 2004 and September 6, 2003, respectively, and $439 million and $428 million for the 28 weeks ended September

11, 2004 and September 6, 2003, respectively. In addition, we sublease the stores and lease the equipment in the stores to the franchisees. We also provide merchandising, advertising, bookkeeping 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.

Prior to February 23, 2003, we held, 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 allowance for doubtful accounts, had been included in "Accounts receivable" on our Consolidated Balance Sheets, while the long-term portion of the inventory notes and equipment leases had been included in "Other assets" on our Consolidated Balance Sheets. The repayment of these inventory notes and equipment leases had been dependent upon positive operating results of the stores. To the extent that the franchisees incurred operating losses, we had established an allowance for doubtful accounts. We assessed the sufficiency of the allowance on a store by store basis 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 reserved the option to reacquire the inventory and equipment at the store and operate the franchise as a corporate owned store. The cumulative effect adjustment of $8.0 million primarily represents the difference between consolidating these entities as of February 23, 2003 and the allowance for doubtful accounts that was provided for these franchises at that date.

Also refer to Note 11 - Commitments and Contingencies regarding our settlement of a class action lawsuit relating to our Canadian franchise business.

EITF 03-10

In November 2003, the Emerging Issues Task Force confirmed as a consensus EITF Issue No. 03-10, "Application of EITF Issue No. 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor, by Resellers to Sales Incentives Offered to Consumers by Manufacturers". The provisions of EITF 03-10 became effective for our Company in the first quarter of fiscal 2004. EITF 03-10 provides guidance for the reporting of vendor consideration received by a reseller as it relates to manufacturers' incentives, such as rebates or coupons, tendered by consumers. Vendor incentives should be included in revenues only if defined criteria are met. As such, our Company will continue to record as part of revenues manufacturers' coupons that can be presented at any retailer that accepts coupons. However, in the case of vendor incentives that can only be redeemed at a Company retail store, such consideration would be recorded as a decrease in cost of sales. As permitted by the transition provisions of EITF 03-10, we have reclassified prior year's sales and cost of sales for comparative purposes in this report. Implementation of EITF 03-10 has no effect on gross margin dollars, net income or cash flows, but certain vendor coupons or rebates that had been recorded in sales in the past are currently being recognized as a reduction of cost of sales. The implementation of EITF 03-10 has resulted in decreases in both sales and cost of sales of $12.3 million and $10.1 million for the 12 weeks ended September 11, 2004 and September 6, 2003, respectively, and $27.6 million and $24.8 million for the 28 weeks ended September 11, 2004 and September 6, 2003, respectively.

Inventory

At February 28, 2004, approximately 6% of our inventories, relating to all merchandise sold in our Waldbaums and Farmer Jack banners, that were acquired during the past two decades, were valued at the lower of cost or market using the LIFO method. During the first quarter of fiscal 2004, we changed our method of valuing these inventories from the LIFO method to the FIFO method. We believe that the new method is preferable because the FIFO method produces an inventory value on our Consolidated Balance Sheets that better approximates current costs. In addition, under FIFO, the flow of costs is generally more consistent with our physical flow of goods. The adoption of the FIFO method will enhance comparability of our financial statements by conforming all of our inventories to the same accounting method. Our Company applied this change by retroactively restating our consolidated financial statements as required by Accounting Principles Board Opinion No. 20, "Accounting Changes," which resulted in an increase to retained earnings as of February 23, 2003 of approximately $17.5 million.

Overall Impact

The following tables reflect the impact of the adoption of (i.) FIN 46-R on our Canadian operations, including the impact of all elimination entries relating to the consolidation of the franchisees, (ii.) EITF 03-10 on our U.S. ($6.4 million and $14.8 million for the 12 and 28 weeks ended September 11, 2004, respectively, as compared to $7.5 million and $18.2 million for the 12 and 28 weeks ended September 6, 2003, respectively) and Canadian ($5.9 million and $12.9 million for the 12 and 28 weeks ended September 11, 2004, respectively, as compared to $2.6 million and $6.6 million for the 12 and 28 weeks ended September 6, 2003, respectively) operations, and (iii.) the change in our method of valuing certain of our inventories from the LIFO method to the FIFO method on our U.S. operations in our Consolidated Statements of Operations and Consolidated Balance Sheets for the periods presented. Note that the adoption of EITF 03-10 only impacts our Consolidated Statements of Operations. Furthermore, the change in our method of valuing certain of our inventories impacts our Consolidated Balance Sheets and had a $1.1 million impact on our Consolidated Statement of Operations for both the 12 and 28 weeks ended September 6, 2003.

	Consolidated A&P for the 12 weeks ended Sept. 11, 2004 prior to changes	Impact of adoption of FIN 46-R	Impact adoption EITF 03-
Sales	$ 2,467,688	$ 35,196	$ (12
Cost of merchandise sold	(1,806,601)	(770)	12
Gross margin	661,087	34,426	
Store operating, general and administrative expense	(707,541)	(32,480)	
(Loss) income from operations	(46,454)	1,946	
Interest expense	(22,078)	-	
Interest income	1,809	(1,041)	
Minority interest in earnings of consolidated franchisees	-	(342)	
(Loss) income from continuing operations			

before income taxes	(66,723)	563	
Benefit from (provision for) income taxes	1,944	(330)	
(Loss) income from continuing operations	(64,779)	233	
Discontinued operations:			
Income from operations of discontinued businesses, net of tax	344	-	
Gain on disposal of discontinued operations, net of tax	-	-	
Income from discontinued operations	344	-	
Net (loss) income	$ (64,435)	$ 233	$
Depreciation	$ (61,249)	$ (1,148)	$

	Consolidated A&P as previously reported for the 12 weeks ended Sept. 6, 2003	Impact of adoption of FIN 46-R	Impact of adoption of EITF 03-10	Change LIFO FIF
Sales	$ 2,443,700	$ 31,176	$ (10,118)	$
Cost of merchandise sold	(1,784,774)	(92)	10,118	1
Gross margin	658,926	31,084	-	1
Store operating, general and administrative expense	(679,839)	(31,272)	-	
(Loss) income from operations	(20,913)	(188)	-	1
Interest expense	(17,945)	-	-	
Interest income	1,773	(1,199)	-	
Minority interest in earnings of consolidated franchisees	-	446	-	
(Loss) income from continuing operations before income taxes	(37,085)	(941)	-	1
Provision for income taxes	(20,010)	(115)	-	
(Loss) income from continuing operations	(57,095)	(1,056)	-	1
Discontinued operations:				
Loss from operations of discontinued businesses, net of tax	(19,684)	-	-	

Loss on disposal of discontinued operations, net of tax	(6,911)	-	-	
Loss from discontinued operations	(26,595)	-	-	
Cumulative effect of change in accounting principle - FIN 46-R, net of tax	-	-	-	
Net (loss) income	$ (83,690)	$ (1,056)	$ -	$ 1
Depreciation	$ (61,596)	$ (1,407)	$ -	$

	Consolidated A&P for the 28 weeks ended Sept. 11, 2004 prior to changes	Impact of adoption of FIN 46-R	Impact adoption EITF 03
Sales	$ 5,720,343	$ 78,172	$ (27
Cost of merchandise sold	(4,186,498)	3,492	27
Gross margin	1,533,845	81,664	
Store operating, general and administrative expense	(1,595,400)	(73,237)	
(Loss) income from operations	(61,555)	8,427	
Interest expense	(48,928)	-	
Interest income	4,103	(2,494)	
Minority interest in earnings of consolidated franchisees	-	(1,718)	
(Loss) income from continuing operations before income taxes	(106,380)	4,215	
Provision for income taxes	(2,470)	(1,374)	
(Loss) income from continuing operations	(108,850)	2,841	
Discontinued operations:			
Loss from operations of discontinued businesses, net of tax	(1,039)	-	
Gain on disposal of discontinued operations, net of tax	-	-	
Loss from discontinued operations	(1,039)	-	

Net (loss) income	$ (109,889)	$ 2,841	$
Depreciation	$ (140,923)	$ (2,596)	$

	Consolidated A&P as previously reported for the 28 weeks ended Sept. 6, 2003	Impact of adoption of FIN 46-R	Impact of adoption of EITF 03-10	Change LIFO FIF
Sales	$ 5,647,530	$ 70,585	$ (24,834)	$
Cost of merchandise sold	(4,109,435)	4,504	24,834	1
Gross margin	1,538,095	75,089	-	1
Store operating, general and administrative expense	(1,571,467)	(73,428)	-	
(Loss) income from operations	(33,372)	1,661	-	1
Interest expense	(42,829)	-	-	
Interest income	3,912	(2,558)	-	
Minority interest in earnings of consolidated franchisees	-	172	-	
(Loss) income from continuing operations before income taxes	(72,289)	(725)	-	1
Provision for income taxes	(5,148)	(619)	-	
(Loss) income from continuing operations	(77,437)	(1,344)	-	1
Discontinued operations:				
Loss from operations of discontinued businesses, net of tax	(29,962)	-	-	
Gain on disposal of discontinued operations, net of tax	43,989	-	-	
Income from discontinued operations	14,027	-	-	
Cumulative effect of change in accounting principle - FIN 46-R, net of tax	-	(8,047)	-	
Net (loss) income	$ (63,410)	$ (9,391)	$ -	$ 1

Depreciation	$ (145,692)	$ (3,088)	$ -	$

	Consolidated A&P at September 11, 2004 prior to adoption	Impact of adoption of FIN 46-R
ASSETS		
Current assets:		
Cash and cash equivalents	$ 251,422	$ 25,412
Accounts receivable	169,166	(27,453)
Inventories	702,887	26,038
Prepaid expenses and other current assets	60,827	985
Total current assets	1,184,302	24,982
Non-current assets:		
Property:		
Property owned	1,361,466	18,778
Property leased under capital leases, net	60,628	-
Property, net	1,422,094	18,778
Other assets	155,898	(35,147)
Total assets	$ 2,762,294	$ 8,613
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long term debt	$ 2,274	$ -
Current portion of obligations under capital leases	11,878	-
Accounts payable	535,515	577
Book overdrafts	107,827	-
Accrued salaries, wages and benefits	178,396	2,577
Accrued taxes	66,035	5,285
Other accruals	245,731	941
Total current liabilities	1,147,656	9,380
Non-current liabilities:		
Long-term debt	829,770	-
Long-term obligations under capital leases	73,167	-
Other non-current liabilities	406,085	(121)
Minority interest in consolidated franchisees	-	6,592
Total liabilities	2,456,678	15,851
Commitments and contingencies		

Stockholders' equity:		
Preferred stock	-	-
Common stock	38,522	-
Additional paid-in capital	459,592	-
Accumulated other comprehensive loss	(14,258)	(330)
Accumulated deficit	(178,240)	(6,908)
Total stockholders' equity	305,616	(7,238)
Total liabilities and stockholders'equity	$ 2,762,294	$ 8,613

	Consolidated A&P at February 28, 2004	Impact of adoption of FIN 46-R	Impact change f LIFO to
ASSETS			
Current assets:			
Cash and cash equivalents	$ 276,151	$ 20,857	$
Accounts receivable	190,737	(18,902)	
Inventories	654,344	22,491	17,2
Prepaid expenses and other current assets	33,651	145	
Total current assets	1,154,883	24,591	17,2
Non-current assets:			
Property:			
Property owned	1,383,702	22,223	
Property leased under capital leases, net	65,632	-	
Property, net	1,449,334	22,223	
Other assets	154,904	(39,404)	
Total assets	$ 2,759,121	$ 7,410	$ 17,2
LIABILITIES & STOCKHOLDERS' EQUITY			
Current liabilities:			
Current portion of long term debt	$ 2,271	$ -	$
Current portion of obligations under capital leases	15,901	-	
Accounts payable	477,536	3,176	
Book overdrafts	96,273	-	
Accrued salaries, wages and benefits	176,812	330	
Accrued taxes	69,217	5,481	
Other accruals	235,910	328	
Total current liabilities	1,073,920	9,315	

Non-current liabilities:			
Long-term debt	823,738	-	
Long-term obligations under capital leases	73,980	-	
Other non-current liabilities	401,659	1,273	
Minority interest in consolidated franchisees	-	7,172	
Total liabilities	2,373,297	17,760	
Commitments and contingencies			
Stockholders' equity:			
Preferred stock	-	-	
Common stock	38,519	-	
Additional paid-in capital	459,579	-	
Accumulated other comprehensive loss	(26,637)	(602)	
Accumulated deficit	(85,637)	(9,748)	17,2
Total stockholders' equity	385,824	(10,350)	17,2
Total liabilities and stockholders'equity	$ 2,759,121	$ 7,410	$ 17,2

4. Income Taxes

The income tax provision recorded for the 28 weeks ended September 11, 2004 and September 6, 2003 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") provides that a deferred tax asset is recognized for temporary differences that will result in deductible amounts in future years and for carryforwards. In addition, SFAS 109 requires that a valuation allowance be recognized if, based on the weight of available evidence, 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. deferred tax asset and our historic cumulative losses, we concluded that it was appropriate to record a valuation allowance in an amount that would reduce our U.S. deferred tax asset to the amount that is more likely than not to be realized. For the 12 and 28 weeks ended September 11, 2004, the valuation allowance was increased by $27.0 million and $40.3 million, respectively. To the extent that our U.S. operations generate sufficient 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.

Further, in accordance with SFAS 109, income from discontinued operations can be tax effected under certain circumstances. As a result, we taxed the income from discontinued operations for the 28 weeks ended September 6, 2003 at our effective tax rate. The tax provision for discontinued operations of $10.2 million for the 28 weeks ended September 6, 2003 was completely offset by a tax benefit from continuing operations. Similarly, the tax benefit for discontinued operations of $12.7 million for the 12 weeks ended September 6, 2003 was completely offset by a tax provision for continuing operations.

For the second quarter of fiscal 2004, our effective income tax rate of 2.4% changed from the effective income tax rate of 54.5% in the second quarter of fiscal 2003 as follows:

	12 Weeks Ended			
	September 11, 2004		September 6, 2003	
	Tax (Provision) Benefit	Effective Tax Rate	Tax (Benefit) Provision	Effecti Tax Ra
United States	$ (1,035)	1.6%	$ (14,117)	38
Canada	2,649	(4.0%)	(6,008)	16
	$ 1,614	(2.4%)	$ (20,125)	54

The decrease in our effective tax rate was primarily due to the absence of a tax provision recognized from continuing operations. As discussed above, $12.7 million of provision was recognized in the second quarter of fiscal 2003 as compared to the second quarter of fiscal 2004, where no provision was recognized. The remaining provisions recorded in the U.S. of $1.0 million and $1.4 million for the second quarters of fiscal 2004 and 2003, respectively, represent state and local taxes. In addition, the decrease in our effective tax rate resulted from the impact of the higher mix of Canadian loss from continuing operations as a percentage of our Company's loss from continuing operations in the second quarter of fiscal 2004 as compared to the second quarter of fiscal 2003.

For the 28 weeks ended September 11, 2004, our effective income tax rate of 3.8% changed from the effective income tax rate of 8.0% for the 28 weeks ended September 6, 2003 as follows:

	28 Weeks Ended			
	September 11, 2004		September 6, 2003	
	Tax (Provision) Benefit	Effective Tax Rate	Tax Benefit (Provision)	Effec Tax
United States	$ (2,415)	2.4%	$ 7,907	(11
Canada	(1,429)	1.4%	(13,674)	19
	$ (3,844)	3.8%	$ (5,767)	8

The decrease in our effective tax rate was primarily due to the absence of a tax benefit recognized from continuing operations. As discussed above, $10.2 million of benefit was recognized for the 28 weeks ended September 6, 2003 as compared to the 28 weeks ended September 11, 2004, where no benefit was recognized. The remaining provisions recorded in the U.S. of $2.4 million and $2.3 million for the 28 weeks ended September 11, 2004 and September 6, 2003, respectively, represent state and local taxes. In addition, the decrease in our effective tax rate resulted from the impact of the higher mix of Canadian loss from continuing operations as a percentage of our Company's loss from continuing operations for the 28 weeks ended September 11, 2004 as compared to the 28 weeks ended September 6, 2003.

At September 11, 2004 and February 28, 2003, we had a net current deferred tax asset which is included in "Prepaid expenses and other current assets" on our Consolidated Balance Sheet totaling $16.6 million and $8.9 million, respectively, and a net non-current deferred tax liability which is included in "Other non-current liabilities" on our Consolidated Balance Sheet totaling $27.9 million and $22.5 million, respectively.

5. 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 primarily based upon groups of assets and the undiscounted estimated future cash flows from such assets to determine if the carrying value of such assets is recoverable from their respective cash flows. If such review indicates an impairment exists, we measure such impairment on a discounted basis using a probability weighted approach and a risk free rate.

Such review may also be based upon appraisals of or offers for our long-lived assets we receive in the normal course of business. During both the 12 and 28 weeks ended September 11, 2004, we recorded an impairment loss of $0.9 million related to certain idle property that, based upon new information received about such assets, including an appraisal and an offer, was impaired and written down to its net realizable value. This amount was included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations. There were no such amounts recorded during the 12 and 28 weeks ended September 6, 2003.

We also review assets in stores planned for closure or conversion for impairment upon determination that such assets will not be used for their intended useful life. During both the 12 and 28 weeks ended September 11, 2004, we recorded impairment losses on property, plant and equipment of $0.8 million compared to $4.2 million and $19.4 million during the 12 and 28 weeks ended September 6, 2003, respectively. Of these amounts, $0.8 million in both fiscal 2004 periods presented and $0.5 million in both fiscal 2003 periods presented related to United States 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) gain on disposal of discontinued operations, net of tax" (see Note 6 of our Consolidated Financial Statements). The effects of changes in estimates of useful lives were not material to ongoing depreciation expense.

If current operating levels and trends continue, there may be additional future impairments on long-lived assets, including the potential for impairment of assets that are held and used.

6. 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.

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

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 considered, where available, 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. Of this amount, $12.4 million related to northern New England locations and $9.7 million related to Kohl's locations. These assets were no longer depreciated after this date.

We have accounted for all of these separate business components as discontinued operations in accordance with SFAS 144. In determining whether a store or group of stores qualifies as discontinued operations treatment, we include only those stores for which (i.) the operations and cash flows will be eliminated from our ongoing operations as a result of the disposal and (ii.) we will not have any significant continuing involvement in the operations of the stores after the disposal. In making this determination, we consider the geographic location of the stores. If stores to be disposed of are replaced by other stores in the same geographic district, we would not include the stores as discontinued operations.

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 these discontinued businesses, which are included in our Consolidated Statements of Operations, under the caption "Income (loss) from operations of discontinued businesses, net of tax" for the 12 and 28 weeks ending September 11, 2004 and September 6, 2003, and the results of disposing these businesses which are included in "(Loss) gain on disposal of discontinued operations, net of tax" on our Consolidated Statements of Operations for 12 and 28 weeks ending September 11, 2004 and September 6, 2003.

	12 Weeks ended September 11, 2004			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot

Income (loss) from operations of discontinued businesses				
Sales	$ -	$ -	$ -	$
Operating expenses	699	(352)	(3)	
Income (loss) from operations of discontinued businesses, before tax	699	(352)	(3)	
Tax provision	-	-	-	
Income (loss) from operations of discontinued businesses, net of tax	$ 699	$ (352)	$ (3)	$

Disposal related costs included in operating expenses above:

Non-accruable closing costs	$ 702	$ (192)	$ (3)	$
Interest accretion on present value of future occupancy costs	(3)	(160)	-	
Total disposal related costs	$ 699	$ (352)	$ (3)	$

	12 Weeks ended September 6, 2003			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
(Loss) income from operations of discontinued businesses				
Sales	$ -	$ 38,494	$ 18,901	$ 57
Operating expenses	(474)	(79,500)	(13,007)	(92
(Loss) income from operations of discontinued businesses, before tax	(474)	(41,006)	5,894	(35
Tax benefit (provision)	212	18,324	(2,634)	15
(Loss) income from operations of discontinued businesses, net of tax	$ (262)	$ (22,682)	$ 3,260	$ (19

Disposal related costs included in operating expenses above:

Pension withdrawal liability	$ -	$ (2,500)	$ -	$ (2
Occupancy related costs	-	(25,077)	-	(25
Severance and benefits	-	(7,138)	-	(7

Non-accruable inventory costs	-	(692)	-	
Non-accruable closing costs	(474)	451	(320)	
Total disposal related costs	$ (474)	$ (34,956)	$ (320)	$ (35
Loss on disposal of discontinued businesses				
Gain on sale of fixed assets	$ -	$ -	$ -	$
Fixed asset impairments	-	(3,751)	-	(3
Loss on disposal of discontinued businesses, before tax	-	(3,751)	-	(3
Tax provision	-	(3,160)	-	(3
Loss on disposal of discontinued businesses, net of tax	$ -	$ (6,911)	$ -	$ (6

	28 Weeks ended September 11, 2004			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
Income (loss) from operations of discontinued businesses				
Sales	$ -	$ -	$ -	$
Operating expenses	328	(774)	(593)	(1
Income (loss) from operations of discontinued businesses, before tax	328	(774)	(593)	(1
Tax provision	-	-	-	
Income (loss) from operations of discontinued businesses, net of tax	$ 328	$ (774)	$ (593)	$ (1
Disposal related costs included in operating expenses above:				
Severance and benefits	$ (326)	$ -	$ -	$
Non-accruable closing costs	660	(390)	(593)	
Interest accretion on present value of future occupancy costs	(6)	(384)	-	
Total disposal related costs	$ 328	$ (774)	$ (593)	$ (1

	28 Weeks ended September 6, 2003			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
(Loss) income from operations of discontinued businesses				
Sales	$ 32,726	$ 123,229	$ 44,073	$ 200
Operating expenses	(43,464)	(175,865)	(32,357)	(251
(Loss) income from operations of discontinued businesses, before tax	(10,738)	(52,636)	11,716	(51
Tax benefit (provision)	3,912	22,517	(4,733)	21
(Loss) income from operations of discontinued businesses, net of tax	$ (6,826)	$ (30,119)	$ 6,983	$ (29
Disposal related costs included in operating expenses above:				
Pension withdrawal liability	$ -	$ (6,500)	$ -	$ (6
Occupancy related costs	(3,993)	(25,387)	-	(29
Non-accruable inventory costs	-	(1,989)	-	(1
Non-accruable closing costs	(3,114)	(1,837)	(1,443)	(6
Gain on sale of inventory	1,645	-	-	1
Severance and benefits	(2,635)	(8,415)	-	(11
Total disposal related costs	$ (8,097)	$ (44,128)	$ (1,443)	$ (53

	28 Weeks ended September 6, 2003			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
Gain (loss) from disposal of discontinued businesses				
Gain on sale of fixed assets	$ 85,983	$ 8,827	$ -	$ 94
Fixed asset impairments	-	(18,968)	-	(18
Gain (loss) on disposal of discontinued businesses, before tax	85,983	(10,141)	-	75
Tax provision	(30,997)	(856)	-	(31
Gain (loss) disposal of discontinued businesses, net of tax	$ 54,986	$ (10,997)	$ -	$ 43

Northern New England

As previously stated, as part of our strategic plan we decided, in February 2003, to exit the northern New England market by closing and/or selling 21 stores in that region in order to focus on our core geographic markets. As a result of these sales, we generated proceeds of $117.5 million, resulting in a gain of $86.0 million ($55.0 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. In addition, as part of the exit of this business, we reported a loss of $0.5 million ($0.3 million after tax) and $10.7 million ($6.8 million after tax) for the 12 and 28 weeks ended September 6, 2003, respectively, which were included in "Income (loss) from operations of discontinued businesses, net of tax" on our Consolidated Statements of Operations for those periods. During the 12 and 28 weeks ended September 11, 2004, we recorded gains of $0.7 million and $0.3 million, respectively, primarily due to favorable results of winding down this business.

The following table summarizes the reserve activity related to the exit of the northern New England market since the charge was recorded:

	Occupancy	Severance and Benefits	Total
Fiscal 2003 charge (1)	$3,993	$2,670	$6,663
Additions (2)	6	-	6
Utilization (3)	(3,547)	(2,612)	(6,159
Balance at February 28, 2004	452	58	510
Additions (2)	6	326	332
Utilization (3)	(25)	(384)	(409
Balance at September 11, 2004	$ 433	$ -	$ 433

(1) The fiscal 2003 charge to occupancy consists of $4.0 million related to future expected occupancy costs such as rent, common area maintenance and real estate taxes. The addition to occupancy represents the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. The fiscal 2003 charge to severance and benefits of $2.7 million related to severance to be paid to employees terminated as a result of our exit from the northern New England market.

(2) The additions to occupancy represents the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge.

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

As of September 11, 2004, we had paid approximately $3.0 million in severance and benefits costs, which resulted from the termination of approximately 300 employees.

At September 11, 2004, $0.1 million of the northern New England exit reserves was included in "Other accruals" and $0.3 million was included in "Other non-current liabilities" on our Consolidated Balance Sheets. We have evaluated the liability balance of $0.4 million as of September 11, 2004 based upon current available information and have concluded that it is appropriate. 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.

Kohl's Market

As previously stated, as part of our strategic plan we decided to exit the Madison and Milwaukee, Wisconsin markets, which comprised our Kohl's banner.

As a result of the Madison sales, we generated proceeds of $20.1 million, resulting in a gain of $8.8 million ($5.6 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.

As a result of the decision to exit Milwaukee, 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 at the remaining Kohl's locations of $3.8 million and $18.9 million during the 12 and 28 weeks ended September 6, 2003, respectively. This net loss is also included in "(Loss) gain on disposal of discontinued operations, net of tax" on our Consolidated Statements of Operations for those periods.

As a result of the closure and impending sale of certain Milwaukee locations, we recorded exit costs net of the results of these businesses while they were open of $41.0 million and $52.6 million for the 12 and 28 weeks ended September 6, 2003. These charges are detailed in the tables above and are included in "Income (loss) from operations of discontinued businesses, net of tax" in our Consolidated Statements of Operations for those periods. During the 12 and 28 weeks ended September 11, 2004, we recorded charges of $0.4 million and $0.8 million, respectively, primarily due to residual costs of winding down this business.

The following table summarizes the reserve activity since the charge was recorded:

	Occupancy	Severance and Benefits	Fixed Assets	Total
Fiscal 2003 charge (1)	$25,487	$13,062	$18,968	$57,517
Additions (2)	352	-	-	352
Utilization (3)	(5,342)	(8,228)	(18,968)	(32,538
Adjustments (4)	(1,458)	-	-	(1,458

Balance at February 28, 2004	19,039	4,834	-	23,873
Additions (2)	384	-	-	384
Utilization (3)	(2,309)	(1,614)	-	(3,923
Balance at September 11, 2004	$17,114	$ 3,220	$ -	$20,334

(1) The fiscal 2003 charge to occupancy consists of $25.5 million related to future occupancy costs such as rent, common area maintenance and real estate taxes. The fiscal 2003 charge to severance and benefits of $13.1 million related to severance costs of $6.6 million and costs for future obligations for early withdrawal from multi-employer union pension plans and a health and welfare plan of $6.5 million. The fiscal 2003 charge to property of $18.9 million represents the impairment losses at certain Kohl's locations.

(2) The additions to occupancy represents the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge.

(3) Occupancy utilization represents vacancy related payments for closed locations such as rent, common area maintenance, real estate taxes and lease termination payments. Severance and benefits utilization represents payments made to terminated employees during the period and payments for pension withdrawal.

(4) 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 $1.5 million primarily related to reversals of previously accrued vacancy related costs due to favorable results of terminating and subleasing certain locations of $4.5 million offset by additional vacancy accruals of $3.0 million.

As of September 11, 2004, we had paid approximately $9.8 million of the total original severance and benefits charge recorded, which resulted from the termination of approximately 2,000 employees. The remaining severance liability relates to future obligations for early withdrawal from multi-employer union pension plans which will be paid by mid-2006, and individual severance payments which will be paid by the end of fiscal 2004.

At September 11, 2004, $6.7 million of the Kohl's exit reserves was included in "Other accruals" and $13.6 million was included in "Other non-current liabilities" on our Consolidated Balance Sheets. We have evaluated the liability balance of $20.3 million as of September 11, 2004 based upon current available information and have concluded that it is appropriate. 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.

Eight O'Clock Coffee

During the second half of fiscal 2003, we completed the sale of our Eight O'Clock Coffee business, generating gross proceeds of $107.5 million and a gain of $85.0 million ($49.3 million after tax). The sale of the coffee business also included a contingent note for up to $20.0 million, the value and payment of which is based upon certain elements of the future performance of the Eight O'Clock Coffee business and therefore is not included in the gain. During the 12 and 28 weeks ended September 6, 2003, we incurred costs of $0.3 million and $1.4

million related to the pending sale. During the 12 and 28 weeks ended September 11, 2004, we incurred costs of nil and $0.6 million related to winding down this business subsequent to the sale during the latter half of fiscal 2003.

7. Asset Disposition Initiative

Overview

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 (Project Great Renewal). 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 (2 in the United States and 1 in Canada) would be closed and/or sold, and certain administrative streamlining would take place (2001 Asset Disposition). During the fourth quarter of fiscal 2003, we announced an initiative to close 6 stores and convert 13 stores to our Food Basics banner in the Detroit, Michigan and Toledo, Ohio markets (Farmer Jack Restructuring).

Presented below is a reconciliation of the charges recorded on our Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the 12 and 28 weeks ended September 11, 2004 and September 6, 2003. Present value ("PV") interest represents interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. Non-accruable items represent charges related to the restructuring that are required to be expensed as incurred in accordance with SFAS 146 "Accounting for Costs Associated with Exit or Disposal Activities".

	12 Weeks Ended September 11, 2004				12 Weeks Ended	
	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring	Total	Project Great Renewal	2001 Asset Dispositi
Balance Sheet accruals						
PV interest	$ 446	$ 568	$ 158	$ 1,172	$ 592	$ 7
Total accrued to balance sheets	446	568	158	1,172	592	7
Occupancy reversals	-	-	-	-	-	(6,7
Additional severance	-	-	-	-	-	9
Adjustments to balance sheets	-	-	-	-	-	(5,8
Non-accruable items recorded on Statements of Operations						
Property writedowns	-	-	-	-	-	4
Inventory markdowns	-	-	-	-	-	

Closing costs	-	-	9	9	-	
Total non-accruable items	-	-	9	9	-	4
Less PV interest	(446)	(568)	(158)	(1,172)	(592)	(7
Total amount recorded on Statements of Operations and Statements of Cash Flows excluding PV interest	$ -	$ -	$ 9	$ 9	$ -	$ (5,40

	28 Weeks Ended September 11, 2004				28 Weeks Ended	
	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring	Total	Project Great Renewal	2001 Asset Dispositi
Balance Sheet accruals						
PV interest	$ 1,076	$ 1,349	$ 380	$ 2,805	$ 1,420	$ 1,7
Total accrued to balance sheets	1,076	1,349	380	2,805	1,420	1,7
Occupancy reversals	-	-	-	-	-	(6,77
Additional severance	-	-	-	-	-	9
Adjustments to balance sheets	-	-	-	-	-	(5,82
Non-accruable items recorded on Statements of Operations						
Property writedowns	-	-	90	90	-	4
Inventory markdowns		-	291	291	-	
Closing costs	-	-	689	689	-	
Total non-accruable items	-	-	1,070	1,070	-	4
Less PV interest	(1,076)	(1,349)	(380)	(2,805)	(1,420)	(1,7
Total amount recorded on Statements of						

Operations and Statements of Cash Flows excluding PV interest	$ -	$ -	$ 1,070	$ 1,070	$ -	$ (5,40

Project Great Renewal

In May 1998, we initiated an assessment of our business operations in order to identify the factors that were impacting our performance. As a result of this assessment, 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 (156 in the United States and 10 in Canada) including the exit of the Richmond, Virginia and Atlanta, Georgia markets. As of September 11, 2004, we had closed all stores and facilities related to this phase of the initiative.

The following table summarizes the activity related to this phase of the initiative over the last three fiscal years:

	Occupancy			Severance and Benefits			
	U.S.	Canada	Total	U.S.	Canada	Total	U.S.
Balance at February 24, 2001	$ 82,189	$ 672	$ 82,861	$ 2,721	$ -	$ 2,721	$ 84,9
Addition (1)	3,500	318	3,818	-	-	-	3,5
Utilization (2)	(22,887)	(415)	(23,302)	(544)	-	(544)	(23,4
Balance at February 23, 2002	$ 62,802	$ 575	$ 63,377	2,177	$ -	$ 2,177	64,9
Addition (1)	2,861	298	3,159	-	-	-	2,8
Utilization (2)	(13,230)	(386)	(13,616)	(370)	-	(370)	(13,6
Adjustments (3)	(3,645)	-	(3,645)	639	-	639	(3,0
Balance at February 22, 2003	$ 48,788	$ 487	$ 49,275	$ 2,446	$ -	$ 2,446	$ 51,2
Addition (1)	2,276	372	2,648	-	-	-	2,2
Utilization (2)	(19,592)	(407)	(19,999)	(289)	-	(289)	(19,8
Balance at February 28, 2004	$ 31,472	$ 452	$ 31,924	$ 2,157	$ -	$ 2,157	$ 33,6
Addition (1)	1,063	13	1,076	-	-	-	1,0
Utilization (2)	(3,285)	(85)	(3,370)	(433)	-	(433)	(3,7
Balance at Sept. 11, 2004	$ 29,250	$ 380	$ 29,630	$ 1,724	$ -	$ 1,724	$ 30,9

(1) The additions to store occupancy of $3.8 million, $3.2 million and $2.6 million during fiscal 2001, 2002 and 2003, respectively, and $1.1 million during the 28 weeks ended September 11, 2004 represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge.

(2) Occupancy utilization of $23.3 million, $13.6 million and $20.0 million for fiscal 2001, 2002 and 2003, respectively, and $3.4 million during the 28 weeks ended September 11, 2004 represents payments made during those periods for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of $0.5 million, $0.4 million and $0.3 million for fiscal 2001, 2002 and 2003, respectively, and $0.4 million during the 28 weeks ended September 11, 2004 represents payments to individuals for severance and benefits, as well as payments to pension funds for early withdrawal from multi-employer union pension plans.

(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. We have continued to make favorable progress in marketing and subleasing the closed stores. As a result, during fiscal 2002, we recorded a reduction of $3.6 million in occupancy accruals related to this phase of the initiative. Further, we increased our reserve for future minimum pension liabilities by $0.6 million to better reflect expected future payouts under certain collective bargaining agreements.

We paid $96.1 million of the total occupancy charges from the time of the original charges through September 11, 2004 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid $29.8 million of the total net severance charges from the time of the original charges through September 11, 2004, which resulted from the termination of approximately 3,400 employees. The remaining occupancy liability of $29.6 million relates to expected future payments under long term leases and is expected to be paid in full by 2020. The remaining severance liability of $1.7 million primarily relates to expected future payments for early withdrawals from multi-employer union pension plans and will be fully paid out by 2020.

None of these stores were open during either of the first or second quarters of fiscal 2003 or 2004. As such, there was no impact on the Statements of Consolidated Operations from the 166 stores included in this phase of the initiative.

At September 11, 2004 and February 28, 2004, approximately $5.6 million and $6.5 million, respectively, of the reserve was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on the Company's Consolidated Balance Sheets.

Based upon current available information, we evaluated the reserve balances as of September 11, 2004 of $31.4 million for this phase of the asset disposition initiative and have concluded that they are appropriate to cover expected future costs. The Company will continue to monitor the status of the vacant properties and adjustments to the reserve balances may be recorded in the future, if necessary.

2001 Asset Disposition

During the third quarter of fiscal 2001, the Company's Board of Directors approved a plan resulting from our review of the performance and potential of each of the Company's businesses and individual stores. At the conclusion of this review, our Company determined that certain underperforming operations, including 39 stores (30 in the United States and 9 in Canada) and 3 warehouses (2 in the United States and 1 in Canada) should be closed and/or sold, and certain administrative streamlining should take place. As of September 11, 2004, we had closed all stores and facilities related to this phase of the initiative.

The following table summarizes the activity related to this phase of the initiative recorded on the Consolidated Balance Sheets since the announcement of the charge in November 2001:

	Occupancy			Severance and Benefits			
	U.S.	Canada	Total	U.S.	Canada	Total	U.S.
Original charge	$ 78,488	$ 1,968	$ 80,456	$ 15,688	$ 7,747	$ 23,435	$ 94,1
Addition (1)	1,653	20	1,673	-	-	-	1,6
Utilization (2)	(1,755)	(51)	(1,806)	(1,945)	(946)	(2,891)	(3,7
Adjustments (3)	-	-	-	-	(584)	(584)	
Balance at February 23, 2002	$ 78,386	$ 1,937	$ 80,323	13,743	$ 6,217	$ 19,960	$ 92,1
Addition (1)	4,041	49	4,090	2,578	966	3,544	6,6
Utilization (2)	(18,745)	(1,642)	(20,387)	(12,508)	(6,952)	(19,460)	(31,2
Adjustments (3)	(10,180)	-	(10,180)	-	250	250	(10,1
Balance at February 22, 2003	$ 53,502	$ 344	$ 53,846	$ 3,813	$ 481	$ 4,294	$ 57,3
Addition (1)	2,847	3	2,850	-	-	-	2,8
Utilization (2)	(9,987)	(974)	(10,961)	(2,457)	(1,026)	(3,483)	(12,4
Adjustments (3)	(6,778)	1,002	(5,776)	955	603	1,558	(5,8
Balance at February 28, 2004	$ 39,584	$ 375	$ 39,959	$ 2,311	$ 58	$ 2,369	$ 41,8
Addition (1)	1,349	-	1,349	-	-	-	1,3
Utilization (2)	(3,030)	13	(3,017)	(69)	(58)	(127)	(3,0
Balance at Sept. 11, 2004	$ 37,903	$ 388	$ 38,291	$ 2,242	$ -	$ 2,242	$ 40,1

(1) The additions to store occupancy of $1.7 million, $4.1 million and $2.9 million during fiscal 2001, 2002 and 2003, respectively, and $1.3 million during the 28 weeks ended September 11, 2004 represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. The addition to severance of $3.5 million during fiscal 2002 related to retention and productivity incentives that were expensed as earned.

(2) Occupancy utilization of $1.8 million, $20.4 million and $11.0 million during fiscal 2001, 2002 and 2003, respectively, and $3.0 million during the 28 weeks ended September 11, 2004 represent payments made during those periods for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of $2.9 million, $19.5 million and $3.5 million during fiscal 2001, 2002 and 2003, respectively, and $0.1 million during the 28 weeks ended Septembe