

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

GREAT ATLANTIC & PACIFIC TEA CO INC  
Form 10-Q  
October 20, 2009

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

FORM 10-Q

Mark One

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

For the quarterly period ended September 12, 2009

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (ss.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer \_\_\_\_\_ Accelerated filer

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Non-accelerated filer \_\_\_\_\_ Smaller reporting company\_\_\_\_\_

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

As of October 16, 2009, the Registrant had a total of 58,344,210 shares of common stock - \$1 par value outstanding.

The Great Atlantic & Pacific Tea Company, Inc.

### PART I - FINANCIAL INFORMATION

#### ITEM 1 - Financial Statements

The Great Atlantic & Pacific Tea Company, Inc.

#### Consolidated Statements of Operations

(Dollars in thousands, except share and per share amounts)

(Unaudited)

	12 Weeks Ended		
	Sept. 12, 2009	Sept. 6, 2008	
Sales	\$ 2,065,061	\$ 2,182,636	\$
Cost of merchandise sold	(1,441,703)	(1,531,093)	
Gross margin	623,358	651,543	
Store operating, general and administrative expense	(631,924)	(663,066)	
Loss from operations	(8,566)	(11,523)	
Nonoperating (loss) income	(7,079)	42,895	
Interest expense	(48,559)	(34,680)	
Interest and dividend income	51	57	
(Loss) income from continuing operations before income taxes	(64,153)	(3,251)	
Benefit from (provision for) income taxes	1,994	(1,038)	
Loss from continuing operations	(62,159)	(4,289)	
Discontinued operations:			
Loss from operations of discontinued businesses, net of tax provision of \$0 for the 12 and 28 weeks ended 9/12/09 and 9/6/08, respectively	(18,150)	(13,995)	
Gain on disposal of discontinued businesses, net of tax provision of \$0 for the 12 and 28 weeks ended 9/12/09 and 9/6/08, respectively	--	183	
Loss from discontinued operations	(18,150)	(13,812)	
Net loss	\$ (80,309)	\$ (18,101)	\$

Net loss per share - basic:

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Continuing operations	\$	(1.18)	\$	(0.09)	\$
Discontinued operations		(0.34)		(0.28)	
Net loss per share - basic	\$	(1.52)	\$	(0.37)	\$
Net loss per share - diluted:					
Continuing operations	\$	(3.06)	\$	(1.70)	\$
Discontinued operations		(0.68)		(0.27)	
Net loss per share - diluted	\$	(3.74)	\$	(1.97)	\$
Weighted average number of common shares outstanding					
Basic		53,196,728		49,520,525	
Diluted		26,614,466		52,270,094	

See Notes to Consolidated Financial Statements

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

	Common Stock		Additional	(Accumulated
	Shares	Amount	Paid-in	Deficit)/
			Capital	Retained
				Earnings
28 Weeks Ended September 12, 2009				
Balance as of 2/28/2009, as previously reported	57,674,799	\$ 57,675	\$ 438,300	\$ (123,458)
Impact of the adoption of FSP APB 14-1			26,379	(3,856)
Balance as of 2/28/2009, as adjusted	57,674,799	57,675	464,679	(127,314)
Net loss				(145,469)
Other comprehensive income				
Beneficial conversion feature related to preferred stock			10,601	
Dividends on preferred stock			(533)	
Preferred stock financing fees amortization			(70)	
Stock options exercised	477		1	
Other share based awards	668,934	669	3,374	
Balance at end of period	58,344,210	\$ 58,344	\$ 478,052	\$ (272,783)

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

28 Weeks Ended September 6, 2008  
-----

Balance as of 2/23/2008, as previously reported	57,100,955	\$ 57,101	\$ 373,594	\$ 16,423
Impact of the adoption of FSP APB 14-1			26,379	(402)
<hr/>				
Balance as of 2/23/2008, as adjusted	57,100,955	57,101	399,973	16,021
Net loss				(16,837)
Other comprehensive loss				
Conversion features related to convertible debt			57,422	
Stock options exercised	106,309	106	2,095	
Other share based awards	455,936	456	6,549	
<hr/>				
Balance at end of period	57,663,200	\$ 57,663	\$ 466,039	\$ (816)
<hr/> <hr/>				

See Notes to Consolidated Financial Statements

The Great Atlantic & Pacific Tea Company, Inc.  
Consolidated Statements of Stockholders' Equity and  
Comprehensive (Loss) Income - (Continued)  
(Dollars in thousands)  
(Unaudited)

Comprehensive (Loss) Income  
-----

	12 Weeks Ended	
	Sept. 12, 2009	Sept. 6, 2008
	-----	-----
Net loss	\$ (80,309)	\$ (18,101)
Net unrealized gain on marketable securities, net of tax	119	--
Pension and other post-retirement benefits, net of tax	53	(250)
Other comprehensive income (loss), net of tax	172	(250)
Total comprehensive loss	\$ (80,137)	\$ (18,351)
<hr/> <hr/>		

Accumulated Other Comprehensive Loss Balances  
-----

	Net Unrealized Gain	Pension & Other
	on Marketable Securities	Post-retiremen Benefits
	-----	-----

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Balance at February 28, 2009	\$	--	\$ (105,147)
Current period change		638	912
		-----	-----
Balance at September 12, 2009	\$	638	\$ (104,235)
		=====	=====
Balance at February 23, 2008	\$	--	\$ (28,975)
Current period change		--	(590)
		-----	-----
Balance at September 6, 2008	\$	--	\$ (29,565)
		=====	=====

See Notes to Consolidated Financial Statements

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

	September 12,
	-----
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 347,79
Restricted cash	1,99
Restricted marketable securities	2,88
Accounts receivable, net of allowance for doubtful accounts of \$8,622 and \$8,463 at September 12, 2009 and February 28, 2009, respectively	175,22
Inventories	489,07
Prepaid expenses and other current assets	80,96
	-----
Total current assets	1,097,93
	-----
Non-current assets:	
Property:	
Property owned, net	1,518,83
Property leased under capital leases, net	126,33
	-----
Property, net	1,645,16
Goodwill	460,74
Intangible assets, net	219,06
Other assets	234,72
	-----
Total assets	\$ 3,657,62
	=====
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	
Current liabilities:	
Current portion of long-term debt	\$ 2,55
Current portion of obligations under capital leases	14,50
Accounts payable	280,09
Book overdrafts	48,92
Accrued salaries, wages and benefits	144,20

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Accrued taxes	42,02
Other accruals	241,54
	-----
Total current liabilities	773,83
	-----
Non-current liabilities:	
Long-term debt	983,19
Long-term obligations under capital leases	142,78
Long-term real estate liabilities	329,71
Deferred real estate income	89,66
Other financial liabilities	13,72
Preferred Stock liability	117,25
Other non-current liabilities	1,004,44
	-----
Total liabilities	3,454,61
	-----
Series A redeemable preferred stock--no par value, \$1,000 redemption value; authorized - 700,000 shares and none; issued - 57,750 and none at Sept. 12, 2009 and Feb. 28, 2009, respectively	42,99
	-----
Commitments and contingencies (Note 20)	
Stockholders' equity:	
Common stock--\$1 par value; authorized - 160,000,000 shares; issued and outstanding - 58,344,210 and 57,674,799 shares at Sept. 12, 2009 and Feb. 28, 2009, respectively	58,34
Additional paid-in capital	478,05
Accumulated other comprehensive loss	(103,59)
Accumulated deficit	(272,78)
	-----
Total stockholders' equity	160,01
	-----
Total liabilities and stockholders' equity	\$ 3,657,62
	=====

See Notes to Consolidated Financial Statements

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

	-----
	Sept. 12, 2
	-----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (145,469)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	135,572
Nonoperating loss (income)	8,954
Non-cash interest expense	27,393
Stock compensation expense	4,043
Asset disposition initiatives	8,998

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Occupancy charges for stores closed in the normal course of business	18,374
Gain on disposal of owned property and write-down of property, net	(3,580)
Gain on disposal of discontinued operations	--
Other property impairments	3,739
Pension withdrawal costs	2,445
LIFO reserve	2,166
Other changes in assets and liabilities:	
Decrease (increase) in receivables	21,454
Increase in inventories	(17,236)
Increase in prepaid expenses and other current assets	(19,430)
Increase in other assets	(15,552)
Increase in accounts payable	60,147
Decrease in accrued salaries, wages and benefits, and taxes	(14,282)
Decrease in other accruals	(8,712)
Decrease in other non-current liabilities	(46,303)
Other operating activities, net	(2,184)
Net cash provided by (used in) operating activities	20,537
CASH FLOWS FROM INVESTING ACTIVITIES:	
Expenditures for property	(50,005)
Proceeds from disposal of property	3,311
Proceeds from sale of joint venture	5,914
Decrease in restricted cash	222
Proceeds from maturities of marketable securities	2,224
Net cash used in investing activities	(38,334)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of long-term debt	253,201
Principal payments on long-term debt	(163)
Proceeds under revolving lines of credit	39,450
Principal payments on revolving lines of credit	(238,333)
Proceeds under line of credit	378
Principal payments on line of credit	(2,224)
Proceeds from issuance of preferred stock	175,000
Proceeds from promissory note	--
Settlement of Series A warrants	--
Proceeds from long-term real estate liabilities	170
Proceeds from sale-leaseback transaction	3,000
Principal payments on capital leases	(5,703)
(Decrease) increase in book overdrafts	(11,913)
Deferred financing fees	(22,648)
Proceeds from stock options exercised	1
Net cash provided by financing activities	190,216
Effect of exchange rate changes on cash and cash equivalents	--
Net increase in cash and cash equivalents	172,419
Cash and cash equivalents at beginning of period	175,375
Cash and cash equivalents at end of period	\$ 347,794
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the year for interest	\$ 67,971
Cash paid during the year for income taxes	\$ 6,480

# Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

See Notes to Consolidated Financial Statements

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

## 1. Summary of Significant Accounting Policies

### Basis of Presentation and Consolidation

-----

The accompanying Consolidated Statements of Operations, Consolidated Statements of Stockholders' Equity and Comprehensive (Loss) Income, and Consolidated Statements of Cash Flows for the 12 and 28 weeks ended September 12, 2009 and September 6, 2008, and the Consolidated Balance Sheets at September 12, 2009 and February 28, 2009 of The Great Atlantic & Pacific Tea Company, Inc. ("we," "our," "us" or "our Company") are unaudited and, in the opinion of management, contain all adjustments that are of a normal and recurring nature necessary for a fair statement of 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 2008 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 subsidiaries. All intercompany accounts and transactions have been eliminated.

Certain reclassifications have been made to prior year amounts to conform to current year presentation. Refer to Note 2 - Impact of New Accounting Pronouncements below for prior period reclassifications made upon our retrospective adoption of Financial Accounting Standards Board ("FASB") Staff Position ("FSP") Accounting Principles Board ("APB") Opinion No. 14-1 ("FSP APB 14-1").

### Redeemable Preferred Stock

-----

The initial carrying amount of our preferred stock issued in August 2009 was valued at fair value on the date of issuance, net of closing and issuance costs. Based on the terms of the preferred stock agreement, our preferred stock cannot be converted into more than 19.99% of the common stock outstanding prior to its issuance without shareholder approval. The currently convertible shares are recorded within temporary stockholders' equity, and the shares requiring shareholder approval to become convertible are classified as a liability. Refer to Note 11 - Redeemable Preferred Stock for additional information relating to our preferred stock issuance.

Our preferred stock recorded within temporary stockholders' equity contains an embedded beneficial conversion feature, since the fair value of our Company's common stock on the date of issuance was in excess of the effective conversion price. The embedded beneficial conversion feature was recorded by allocating a portion of the proceeds equal to the intrinsic value of the feature to Additional paid-in-capital. The intrinsic value of the feature is calculated on the issuance date by multiplying the difference between the quoted market price of our common stock and the effective conversion price by the number of common shares into which the shares recorded within temporary stockholders' equity convert. The resulting discount will be amortized over the period from the date of issuance to the stated redemption date into "Additional paid-in capital", in absence of retained earnings. We will need to evaluate whether there is a potential beneficial conversion feature in the portion of the issuance currently



## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

classified within "Preferred stock liability", upon receiving shareholder approval for conversion of those shares.

Our "Preferred stock liability" was initially recorded at its fair value, with the related issuance cost amortization recorded within "Interest expense" over its life. Dividends relating to preferred stock classified

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

as a liability are also recorded within "Interest expense". The portion of the issuance classified within temporary stockholders' equity is recorded at liquidation value, net of transaction costs and the embedded beneficial conversion feature. The discount for shares classified within temporary stockholders' equity is accreted through "Additional paid-in capital", in absence of retained earnings, over the period from the date of issuance to the earliest redemption date. Dividends relating to preferred stock recorded within temporary stockholders' equity are recorded within "Additional paid-in capital", in absence of retained earnings.

### 2. Impact of New Accounting Pronouncements

#### Newly Adopted Accounting Pronouncements

-----

##### Convertible Debt

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion" - (Accounting Standards Codification ("ASC") 470-20). FSP APB 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer's nonconvertible debt borrowing rate. FSP APB 14-1 also requires accretion of the resulting debt discount over the expected life of the convertible debt. We adopted FSP APB 14-1 during our first fiscal quarter ended June 20, 2009, as required. Since this standard is required to be applied retrospectively, financial statements for prior periods have been adjusted to reflect its application.

Our \$255.0 million 6.750% Convertible Senior Notes that were issued in December 2007 are subject to FSP APB 14-1, as our estimated nonconvertible debt borrowing rate is higher than the current contractual rate on these notes. As a result of adopting FSP APB 14-1, we retrospectively recognized cumulative additional non-cash interest expense of \$3.9 million from the date of issuance of these Convertible Senior Notes through February 28, 2009. The adoption of FSP APB 14-1 will also increase our non-cash interest expense in fiscal 2009 by approximately \$4.4 million, and will increase non-cash interest expense in subsequent periods during which our convertible notes remain outstanding by approximately \$18.8 million in total. Upon adopting FSP APB 14-1, we also reclassified \$26.4 million of debt and deferred financing costs to "Additional paid-in capital", net of deferred taxes.

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

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

As a result of our adoption of FSP APB 14-1, our Consolidated Statements of Operations for the 12 and 28 weeks ended September 6, 2008 have been adjusted as follows:

	12 Weeks Ended Sept. 6, 2008	
	As adjusted in this Quarterly Report On Form 10-Q	As reported in Quarterly Report on Form 10-Q
Interest expense	\$ (34,680)	\$ (33,945)
(Loss) income from continuing operations	(4,289)	(3,554)
Net loss	(18,101)	(17,366)
Per share data		
Net loss per share - basic:		
Continuing operations	\$ (0.09)	\$ (0.07)
Discontinued operations	(0.28)	(0.28)
Net loss per share - basic	\$ (0.37)	\$ (0.35)
	=====	=====
Net loss per share - diluted:		
Continuing operations	\$ (1.70)	\$ (1.50)
Discontinued operations	(0.27)	(0.25)
Net loss per share - diluted	\$ (1.97)	\$ (1.75)
	=====	=====

As a result of our adoption of FSP APB 14-1, our Consolidated Balance Sheet as of February 28, 2009 and February 23, 2008 has been adjusted as follows:

	As of February 28, 2009	
	As adjusted in this Quarterly Report On Form 10-Q	As reported in the 2008 Annual Report on Form 10-K
Assets:		
Prepaid and other current assets	\$ 67,465	\$ 66,190
Current assets	918,522	917,247
Other assets	193,954	195,856
Total assets	3,545,084	3,545,711
Liabilities:		
Long-term debt	919,364	942,514
Total liabilities	3,255,191	3,278,341
Stockholders' equity:		
Additional paid-in capital	464,679	438,300
(Accumulated deficit)/Retained earnings	(127,314)	(123,458)

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Total stockholders' equity	289,893	267,370
Total liabilities and stockholders' equity	\$ 3,545,084	\$ 3,545,711

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

As a result of our adoption of FSP APB 14-1, our Consolidated Statement of Cash Flows for the 28 weeks ended September 6, 2008 has been adjusted as follows:

	As adjusted in Quarterly Report on Form 10-Q -----	As rep in Quart on Fo -----
Cash flows from operating activities:		
Net loss	\$(16,837)	\$(15
Non-cash interest expense	13,955	12
Net cash used in operating activities	(30,824)	(30

### Subsequent Events

In May 2009, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" ("SFAS No. 165") - (ASC 855-10). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard also includes a new required disclosure of the date through which an entity has evaluated subsequent events. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009. We adopted SFAS No. 165 during our first fiscal quarter ended June 20, 2009. Refer to Note 21 - Subsequent Events for related disclosure.

### Other than Temporary Impairments

On April 9, 2009, the FASB issued FSP Financial Accounting Standard ("FAS") 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP FAS 115-2 and FAS 124-2") - (ASC 320-10-65-1), which applies to debt securities classified as available-for-sale and held-to-maturity. This FSP provides guidance on when the impairment should be considered to be other-than-temporary, the determination of the amount of the other-than-temporary impairment to be recognized in earnings and other comprehensive income, the accounting for debt securities after an other-than-temporary impairment, and the related disclosure requirements. We adopted FSP FAS 115-2 and FAS 124-2 during our first fiscal quarter ended June 20, 2009, as required. The adoption of the FSP did not have a material effect on our Company's consolidated financial statements.

### Fair Value of Financial Instruments

In April 2009, the FASB issued FSP No. FAS 107-1 and APB Opinion No. 28-1 ("FSP FAS 107-1 and APB 28-1") - (ASC 825-10-65-1). FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," and APB Opinion No. 28, "Interim Financial Reporting," to require interim and annual disclosures of the fair value of financial instruments, together with the related carrying amount and how each amount relates to what is reported in the statement of financial position. FSP FAS 107-1 and APB 28-1 also requires

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments. We adopted FSP FAS 107-1 and APB 28-1 during our first fiscal quarter ended June 20, 2009. Refer to Note 5 - Fair Value Measurements for related disclosures.

In April 2009, the FASB issued FSP No. 157-4, "Determining Fair Value when the Volume Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP No. 157-4") - (ASC 820-10-65-4). This FSP provides guidance for determining the fair value of assets and liabilities that have experienced a significant decrease in the volume and level of activity in relation to their normal market activity and the related transactions or quoted prices may not be indicative of fair value, or not orderly. This FSP does not apply to assets or liabilities for which quoted prices may be

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

obtained in an active market, or Level 1 inputs. FSP No. 157-4 also expands the disclosure requirements of SFAS No. 157 to include a discussion of the inputs and valuation techniques used to measure fair value and to provide disclosure for all equity and debt securities that are measured at fair value by each major security type. We adopted FSP No. 157-4 during our first fiscal quarter ended June 20, 2009, as required. Refer to Note 5 - Fair Value Measurements for related disclosures.

In February 2008, the FASB issued FSP No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP No. 157-2") - (ASC 820-10-65-1). FSP No. 157-2 delayed the effective date of SFAS No. 157 (ASC 820) for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until our first fiscal quarter ended June 20, 2009. Our Company adopted SFAS No. 157 and FSP No. 157-1 as of February 24, 2008, with the exception of the application of the statement to nonrecurring nonfinancial assets and nonfinancial liabilities. Refer to Note 5 - Fair Value Measurements for related disclosure. We adopted the remaining provision of SFAS No. 157 during our first fiscal quarter ended June 20, 2009, as required. The nonfinancial assets and liabilities recorded in our Consolidated Balance Sheets include items such as goodwill, long lived assets and store lease exit costs, which are measured at fair value to test for and measure impairment, when necessary. Refer to Note 6 - Valuation of Long-Lived Assets for a summary of impairment charges recorded during the 12 and 28 weeks ended September 12, 2009.

### Intangible Assets

In April 2008, the FASB issued FSP FAS 142-3, "Determining the Useful Life of Intangible Assets" ("FSP FAS 142-3") - (ASC 350-30-65-1). FSP FAS 142-3 amends the factors to be considered in determining the useful life of intangible assets. Its intent is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure its fair value. We adopted FSP FAS 142-3 during our first quarter ended June 20, 2009, as required. The adoption of this FSP did not have a material impact on our financial statements and disclosures.

### Business Combinations

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" ("SFAS No. 141R") - (ASC 805). SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, the goodwill acquired, and any noncontrolling interest in the acquiree. This statement also establishes

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

disclosure requirements to enable the evaluation of the nature and financial effect of the business combination. SFAS No. 141R is effective for our fiscal year ended February 27, 2010. In addition, in April 2009, the FASB issued FSP No. FAS 141(R) - 1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("FSP FAS 141(R) - 1"), which clarifies SFAS No. 141R on issues relating to initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP is effective for assets or liabilities arising from contingencies in business combinations with the acquisition date during or after our fiscal 2009. Our acquisition of Pathmark was not impacted by the provisions of SFAS No. 141R and FSP FAS 141(R) - 1.

### Recently Issued Accounting Pronouncements

-----

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification(TM) ("Codification") and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB

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

Statement No. 162" ("SFAS No. 168") - (ASC 105). In June 2009, the FASB also issued Accounting Standards Update ("ASU") No. 2009-01, "Topic 105 - Generally Accepted Accounting Principles Amendments Based on Statement of Financial Accounting Standards No. 168 - The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles" ("ASU 2009-01"). SFAS No. 168 and ASU 2009-01 establish the Codification as the single official source of authoritative United States accounting and reporting standards for all non-governmental entities (other than guidance issued by the SEC). The Codification changes the referencing and organization on financial standards and is effective for interim and annual periods ending after September 15, 2009. For clarity, we have chosen to include the available Codification references in this quarterly report in addition to pre-Codification accounting standard references. We will apply the Codification references exclusively to our disclosures beginning with the third quarter of fiscal 2009. As the Codification is not intended to change the existing accounting guidance, its adoption will not have an impact on our financial statements.

In June 2009, the FASB issued FAS 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS No. 167"), which amends the consolidation guidance applicable to variable interest entities. This statement is effective beginning in our fiscal 2010. We currently do not expect that the adoption of this statement will have a material effect on our financial statements and disclosures.

In June 2009, the FASB issued FAS No. 166, "Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140" ("SFAS No. 166"). SFAS No. 166 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. This statement will be effective for any financial asset transfers beginning with our fiscal 2010. We are currently assessing the impact of SFAS No. 166 on our financial statements.

In June 2009, the FASB Emerging Issues Task Force ("EITF") issued EITF Issue No. 09-1, "Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance" ("EITF Issue No. 09-1"). The EITF reached a consensus that a share-lending arrangement entered into on an entity's own shares in

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

contemplation of a convertible debt offering or other financing is required to be measured at fair value and recognized as a debt issuance cost in our Company's financial statements. The debt issuance costs should be amortized using the effective interest method over the life of the financing arrangement as interest cost. In addition, the loaned shares should be excluded from the computations of basic and diluted earnings per share, unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in the basic and diluted earnings per share calculation. The EITF also expanded the disclosure requirements for share-lending arrangements. This issue will be effective during our first quarter of fiscal 2010. Early adoption is not permitted. Retrospective application is required for all arrangements outstanding in the beginning of the fiscal year in which this Issue is initially applied. We are currently assessing the impact of EITF Issue No. 09-1 on our financial statements.

In December 2008, the FASB issued FSP FAS 132(R)-1, "Employer's Disclosures about Postretirement Benefit Plan Assets" ("FSP FAS 132(R)-1") - (ASC 715-20-65-2). FSP FAS 132(R)-1 amends SFAS No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits", to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The expanded disclosure requirements include: (i) investment policies and strategies, (ii) the major categories of plan assets, (iii) the inputs and valuation techniques used to measure plan assets, (iv) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan

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

assets for the period, and (v) significant concentrations of risk within plan assets. These disclosure requirements are effective for our fiscal year ended February 27, 2010.

In August 2009, the FASB issued ASU No. 2009-04, "Accounting for Redeemable Equity Instruments" ("ASU 2009-04"). ASU 2009-04 represents an update to ASC section 480-10-S99 "Distinguishing Liabilities from Equity" per EITF Topic D-98 "Classification and Measurement of Redeemable Securities." This update provides guidance on what type of instruments should be classified as temporary as opposed to permanent equity, as well as guidance with regard to measurement. Refer to Note 11 - Redeemable Preferred Stock for a summary of our Preferred Stock transaction.

In August 2009, the FASB issued ASU No. 2009-05 "Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value" ("ASU 2009-05"). ASU 2009-05 amends Subtopic 820-10 "Fair Value Measurements and Disclosures - Overall" and provides clarification on the methods to be used in circumstances in which a quoted price in an active market for the identical liability is not available. The provisions of ASU 2009-05 are effective for the third quarter of our fiscal 2009. We believe that our adoption of ASU 2009-05 will not have a material impact on our financial statements.

### 3. Cash, Cash Equivalents, Restricted Cash and Restricted Marketable Securities

At September 12, 2009 and February 28, 2009, we had \$251.1 million and \$2.1 million, respectively, in cash equivalents, which are principally comprised of various AAA-rated short term money market funds, primarily consisting of

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

investments in U.S. Treasuries, U.S. government and agency securities and notes, commercial paper, corporate bonds and other highly rated money market instruments.

At September 12, 2009 and February 28, 2009, we had \$2.0 million and \$2.2 million, respectively, in restricted cash held in escrow for services our Company is required to perform in connection with the sale of our real estate properties.

At September 12, 2009 and February 28, 2009, our restricted marketable securities of \$2.9 million and \$4.9 million, respectively, were held by Bank of America in the Columbia Fund. These securities are classified as available-for-sale. On December 6, 2007, Bank of America froze the Columbia Fund as a result of the increased risk in subprime asset backed securities. During the 12 weeks ended September 12, 2009 and September 6, 2008, we received distributions from the Columbia Fund in the amount of \$0.8 million and \$6.1 million, respectively, at an amount less than 100% of the net asset value of the fund, resulting in realized losses of \$0.1 million and \$0.2 million, respectively. During the 28 weeks ended September 12, 2009 and September 6, 2008, we received distributions from the Columbia Fund in the amount of \$2.2 million and \$7.1 million, respectively, at an amount less than 100% of the net asset value of the fund, resulting in realized losses of \$0.4 million and \$0.2 million, respectively.

During the 12 and 28 weeks ended September 12, 2009, we recorded unrealized gains of \$0.1 million and \$0.6 million, respectively, based on the increase in the ending net asset value of the Columbia Fund at September 12, 2009. The increase in net asset value is primarily a result of the improved pricing of certain underlying securities included in the fund. As of February 28, 2009, there were no investments with unrealized gains or losses.

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

During the 12 weeks ended September 6, 2008, we recorded a realized gain of \$0.2 million as our realized losses on our redemptions were less than the unrealized losses previously recorded on these shares. During the 28 weeks ended September 6, 2008, we recorded a realized loss of \$0.1 million based on the ending net asset value of the Columbia Fund as the decline in net asset value was considered other than temporary at September 6, 2008 and was not expected to be recovered from future distributions from the fund.

The carrying amount of our cash, cash equivalents, restricted cash and restricted marketable securities approximates fair value.

	At September 12, 2009			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	F V
Classified as:				
Cash	\$ 96,647	\$ --	\$ --	\$

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Cash equivalents - money market funds	251,147	--	--	
	-----	-----	-----	-----
Total cash and cash equivalents	347,794	--	--	
	-----	-----	-----	-----
Restricted cash	1,992	--	--	
Restricted marketable securities	2,249	638	--	
Restricted marketable securities included in other assets	--	--	--	
	-----	-----	-----	-----
Total cash, cash equivalents, restricted cash and restricted marketable securities	\$ 352,035	\$ 638	\$ --	\$
	=====	=====	=====	=====
Securities available-for-sale:				
-----				
Maturing within one year	\$ 2,249			\$
	=====			=====
Maturing greater than one year	\$ --			\$
	=====			=====

4. Goodwill and Other Intangible Assets

The carrying values of our finite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate the carrying amount of assets may not be recoverable. Our intangible assets that have finite useful lives are amortized over their estimated useful lives. Goodwill and other intangibles with indefinite useful lives that are not subject to amortization are tested for impairment in the fourth quarter of each fiscal year, or more frequently whenever events or changes in circumstances indicate that impairment may have occurred. Our annual impairment assessment of goodwill and indefinite lived intangible assets for all reporting units was completed in the fourth quarter of fiscal 2008 and we concluded there was no impairment as of February 28, 2009.

As disclosed in Form 10-Q for our first quarter ended June 20, 2009, we continue to monitor actual results and projections for the necessity of a possible impairment charge. Due to the severity and duration of operating losses within the Price Impact reporting unit, we have reduced our shorter term internal revenue and profitability forecasts and revised our operating plans and cash flow projections. Even though our business outlook has worsened due to the current economic recession, we determined that a hypothetical decrease in fair value of over 25% would be required before the Price Impact reporting unit would have a

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

carrying value in excess of the fair value. Despite unfavorable operating results within the Price Impact reporting unit, we do not believe the long-term value of the reporting unit has been reduced to below its carrying value and therefore, there has not been a triggering event requiring us to perform an interim goodwill impairment analysis at this time.



## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

The determination of estimated fair value is highly sensitive to our Company's assumptions. Changes in the judgments and estimates underlying our analysis of goodwill for possible impairment, including expected future operating cash flows and discount rate, could decrease the fair value of this and other reporting units in the future and could result in an impairment of goodwill. We will continue to monitor events and circumstances in future periods to determine whether interim impairment testing is warranted for any of our reporting units. In addition, we will perform our annual goodwill impairment testing during the fourth quarter of fiscal 2009, based on third quarter financial information. We can provide no assurances that we will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to our performance. These events could include a decline in the forecasted results in our business plan, such as changes in forecasted on-going profitability or capital investment budgets or changes in our interest rates. Recognition of impairment of a significant portion of our goodwill would negatively affect our Company's reported results of operations and total capitalization.

Changes in the carrying amount of goodwill by reportable segment during the 28 weeks ended September 12, 2009 are as follows:

	Fresh	Price Impact	Gourmet	Other
Goodwill at February 28, 2009	\$ 126,609	\$ 338,048	\$ 12,720	\$ 6,183
Adjustment to goodwill*	(5,792)	(16,208)	(610)	(209)
Goodwill at September 12, 2009	\$ 120,817	\$ 321,840	\$ 12,110	\$ 5,974
	=====	=====	=====	=====

\*During the second quarter of fiscal 2009, the amount of Goodwill related to the Pathmark acquisition was reduced by \$22.8 million as a result of an adjustment to the deferred tax valuation allowance that should have been released in connection with the original purchase price allocation.

Other intangible assets acquired as part of our acquisition of Pathmark in December 2007 consisted of the following:

	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization at Sept. 12, 2009	Ac Amor Feb
Loyalty card customer relationships	5	\$ 19,200	\$ 5,648	\$
In-store advertiser relationships	20	14,720	1,302	
Pharmacy payor relationships	13	75,000	10,207	
Pathmark trademark	Indefinite	127,300	--	
Total		\$ 236,220	\$ 17,157	\$
		=====	=====	=====

Amortization expense relating to our intangible assets for the 12 and 28 weeks ended September 12, 2009 was \$2.5 million and \$5.8 million, respectively. Amortization expense for the 12 and 28 weeks ended September 6, 2008 was \$2.2

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

million and \$5.0 million, respectively.

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

The following table summarizes the estimated future amortization expense for our finite-lived intangible assets:

2009	\$ 4,950
2010	10,725
2011	10,725
2012	9,670
2013	6,505
Thereafter	49,188

### 5. Fair Value Measurements

SFAS No. 157 defines and establishes a framework for measuring fair value and expands related disclosures. This Statement applies to all assets and liabilities that are being measured and reported on a fair value basis. Our Company adopted SFAS No. 157 for our financial assets and financial liabilities during our fiscal 2008 and for our nonfinancial assets and liabilities during the first quarter of our fiscal 2009.

SFAS 157 establishes a three-tier fair value hierarchy, which classifies the inputs used in measuring fair value. These tiers include:

Level 1 - Quoted prices in active markets for identical assets or liabilities. Our Company's Level 1 assets include cash equivalents that are traded in an active exchange market.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Our Company's Level 2 liabilities include warrants, which are valued using the Black Scholes pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are financial instruments whose value is determined using pricing models, discounted cash flows, or similar methodologies, as well as instruments for which the determination of fair value requires significant judgment or estimation. Our Company's Level 3 assets include our restricted marketable securities for which there is limited market activity. In addition, our goodwill and other indefinite-lived intangible assets, our long-lived assets and closed store occupancy costs are measured at fair value on a nonrecurring basis using Level 3 inputs. Refer to Note 6 - Valuation of Long-Lived Assets for information relating to valuing our long-lived assets.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of September 12, 2009 and February 28, 2009:

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

	Total Carrying Value at Sept. 12, 2009	Fair Value Measurements at	
		Quoted Prices in Active Markets (Level 1)	Significan Observa Input (Level
<b>Assets:</b>			
-----			
Cash equivalents	\$ 251,147	\$ 251,147	\$
Restricted marketable securities	2,887	--	
Total	\$ 254,034	\$ 251,147	\$
	=====	=====	=====

<b>Liabilities:</b>			
-----			
Series B Warrant	\$ 13,720	\$ --	\$ 13,720
	=====	=====	=====

	Total Carrying Value at Feb. 28, 2009	Fair Value Measurements at	
		Quoted Prices in Active Markets (Level 1)	Significan Observa Input (Level
<b>Assets:</b>			
-----			
Cash equivalents	\$ 2,076	\$ 2,076	\$
Restricted marketable securities	4,857	--	
Total	\$ 6,933	\$ 2,076	\$
	=====	=====	=====

<b>Liabilities:</b>			
-----			
Series B Warrant	\$ 4,766	\$ --	\$ 4,766
	=====	=====	=====

Level 3 Valuation Techniques:

-----  
 Financial assets are considered Level 3 when their fair values are determined

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

using pricing models, discounted cash flows or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial assets include our restricted marketable securities for which there is limited market activity such that the determination of fair value requires significant judgment or estimation. At September 12, 2009 and February 28, 2009, these securities were valued primarily with the assistance of broker pricing models that incorporate transaction details such as contractual terms, maturity, timing and amount of future cash inflows, as well as assumptions about liquidity.

As discussed in Note 3 - Cash, Cash Equivalents, Restricted Cash and Restricted Marketable Securities, on September 12, 2009, we had \$2.9 million invested in the Columbia Fund. Due to market liquidity conditions, cash redemptions from the Columbia Fund were restricted. As a result of this restriction on cash redemptions, we did not consider the Columbia Fund to be traded in an active market with observable pricing on September 12, 2009 and these amounts were categorized as Level 3.

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

The table below provides a summary of the changes in fair value, including net transfers in and/or out, of all financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period February 28, 2009 to September 12, 2009:

	Fair Value Measurements Significant Unobservable (Level 3)
	Restricted Marketable Securities
Beginning Balance	\$ 4,8
Issuances	
Total realized and unrealized (losses) and gains included in:	
Losses (1)	(3
Other comprehensive income (2)	6
Settlements	(2,2
Ending Balance	\$ 2,8

-----  
(1) Amounts are recorded in "Store operating, general and administrative expense" in the Consolidated Statements of Operations.

(2) Represents unrealized gains relating to Level 3 assets still held at September 12, 2009.

The following table provides the carrying values recorded on our balance sheet and the estimated fair values of financial instruments as of September 12, 2009 and February 28, 2009.

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

	As of September 12, 2009		As of
	Carrying Amount	Fair Value	Carrying Amount
Current portion on long-term debt	\$ 2,552	\$ 2,552	\$ 5,2
Long-term debt, net of related discount (1)	983,196	949,720	919,3
Preferred stock liability	117,250	117,250	

(1) The balance our Long-term debt decreased by \$23.1 million from the amount reported in our 2008 Annual Report on Form 10-K as a result of the retrospective application of FSP APB 14-1, which we adopted during the first quarter of fiscal 2009. Refer to Note 2 - Impact of New Accounting Pronouncements for additional information.

Our long-term debt includes borrowings under our line of credit, credit agreement, related party promissory note and our debt securities. The fair value of our debt securities are determined based on quoted market prices for such notes in non-active markets.

Our Preferred stock liability was recorded in connection with our preferred stock issuance in August 2009. We believe that as of September 12, 2009, its current book value, which is based on the net proceeds received, is the best indication of its fair value.

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

6. Valuation of 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 U.S. Treasury risk-free rate, which is based on the life of the primary asset within the asset group.

We 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 the 12 and 28 weeks ended September 12, 2009, we recorded impairment losses on long-lived assets of \$2.6 million and \$3.7 million, respectively, related to stores that were or will be closed or converted in the normal course of business, as compared to \$1.0 million and \$1.8 million in impairment losses on property related to stores that were closed or converted in the normal course of business during the 12 and 28 weeks ended September 6, 2008, respectively. These amounts were recorded within "Store operating, general and administrative expense" in our Consolidated Statements of Operations.

The effects of changes in estimates of useful lives were not material to ongoing depreciation expense.

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

7. Discontinued Operations

We have had multiple transactions throughout the years which met the criteria for discontinued operations. These events are described based on the year the transaction was initiated.

2007 Events

On May 30, 2007, our Company announced advanced negotiations for the sale of our non-core stores located within the Greater New Orleans area, including inventory related to these stores. Our Company ceased sales operations in all stores not sold as of November 1, 2007. Planned sale transactions for these stores have been completed.

On April 24, 2007, based upon unsatisfactory operating trends and the need to devote resources to our expanding Northeast core business, our Company announced negotiations for the sale of our non-core stores within our Midwest operations, including inventory related to these stores. Our Company ceased sales operations in all stores not sold as of July 7, 2007. Planned sale transactions for these stores have been completed.

2005 Event

During the first quarter of fiscal 2005, we announced plans for a major strategic restructuring that would consolidate efforts in the Midwest. Thus, we initiated efforts to close a total of 35 stores in the Midwest, all of which were closed as of February 25, 2006.

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

2003 Events

During fiscal 2003, we adopted a formal plan to exit the Wisconsin markets through the sale and/or disposal of these assets. In February 2003, we announced the sale of a portion of our non-core assets, including seven stores in Madison, Wisconsin and 23 stores in Milwaukee, Wisconsin. Also in 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.

The operating results for these discontinued businesses are included in our Consolidated Statements of Operations, under the captions "Loss from operations of discontinued businesses, net of tax" and "Gain on disposal of discontinued businesses, net of tax" for the 12 and 28 weeks ended September 12, 2009 and September 6, 2008, respectively.

Summarized below is a reconciliation of the liabilities related to restructuring obligations resulting from these activities.

For the 28 Weeks Ended September 12,			
Balance at 2/28/2009	Interest Accretion (1)	Adjustments (2)	Uti

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

2007 Events

Occupancy	\$	70,583	\$	4,896	\$	10,881	\$
Severance		59,239		1,989		37	
2007 events total		129,822		6,885		10,918	

2005 Event

Occupancy		60,327		1,750		--	
-----------	--	--------	--	-------	--	----	--

2003 Events

Occupancy		18,712		614		545	
Total	\$	208,861	\$	9,249	\$	11,463	\$

Fiscal 2008

	Balance at 2/23/2008	Interest Accretion (1)	Adjustments (2)	Util			
2007 Events							
Occupancy	\$	62,873	\$	9,382	\$	28,959	\$
Severance		58,520		2,019		3,730	
2007 events total		121,393		11,401		32,689	
2005 Event							
Occupancy		66,882		3,324		600	
2003 Events							
Occupancy		21,579		1,230		(902)	
Total	\$	209,854	\$	15,955	\$	32,387	\$

- (1) The additions to occupancy and severance represent the interest accretion on future occupancy costs and future obligations for early withdrawal from multi-employer union pension plans which were recorded at present value at the

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

time of the original charge. Interest accretion is recorded as a component of "Loss from operations of discontinued businesses" on our Consolidated Statements of Operations.

- (2) At each balance sheet date, we assess the adequacy of the balance of

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

the remaining liability to determine if any adjustments are required as a result of changes in circumstances and/or estimates. These adjustments are recorded as a component of "Loss from operations of discontinued businesses" on our Consolidated Statements of Operations.

For the 28 weeks ended September 12, 2009

-----  
 During the 28 weeks ended September 12, 2009, we recorded adjustments for the 2007 and 2003 events for additional occupancy related costs of \$10.9 million and \$0.5 million, respectively, due to changes in our estimation of such future costs due to continuing deteriorating conditions in the Midwest real estate market.

Fiscal 2008

-----  
 The charge to occupancy for the 2007 and 2005 events represents adjustments for additional occupancy related costs for our properties of \$29.0 million and \$0.6 million, respectively, due to changes in our estimation of such future costs due to continuing deteriorating conditions in the Midwest real estate market. The charge to severance for the 2007 events represents an adjustment of \$3.7 million for future obligations for early withdrawal from multi-employer union pension plans. We also recorded an adjustment of \$0.9 million to reduce occupancy related costs for the 2003 events due to changes in our estimation of such future costs.

- (3) Occupancy utilization represents payments made during those periods for rent, common area maintenance and real estate taxes. Severance utilization represents payments made to terminated employees during the period.

Summarized below are the payments made through September 12, 2009 from the time of the original charge and expected future payments related to these events:

	2007 Events	2005 Event
	-----	-----
Total severance payments made to date	\$ 30,828	\$ 2,650
Expected future severance payments	58,589	--
	-----	-----
Total severance payments expected to be incurred	89,417	2,650
	-----	-----
Total occupancy payments made to date	67,368	51,954
Expected future occupancy payments, excluding interest accretion	70,849	56,774
	-----	-----
Total occupancy payments expected to be incurred, excluding interest accretion	138,217	108,728
	-----	-----
Total severance and occupancy payments made to date	98,196	54,604
Expected future severance and occupancy payments, excluding interest accretion	129,438	56,774
	-----	-----
Total severance and occupancy payments expected to be incurred, excluding interest accretion	\$ 227,634	\$ 111,378
	=====	=====



## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Payments to date were primarily for occupancy related costs such as rent, common area maintenance, real estate taxes, lease termination costs, severance, and benefits. The remaining obligation relates to expected

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

future payments under long term leases and expected future payments for early withdrawal from multi-employer union pension plans. The expected completion dates for the 2007, 2005 and 2003 events are 2028, 2022 and 2022, respectively.

Summarized below are the amounts included in our balance sheet captions on our Company's Consolidated Balance Sheets related to these events:

	September 12, 2009		
	2007 Events	2005 Event	
Accrued salaries, wages and benefits	\$ 35	\$ --	\$
Other accruals	\$ 29,127	\$ 10,399	\$
Other non-current liabilities	\$ 100,276	\$ 46,375	\$
	February 28, 2009		
	2007 Events	2005 Event	
Accrued salaries, wages and benefits	\$ 43	\$ --	\$
Other accruals	\$ 31,890	\$ 11,016	\$
Other non-current liabilities	\$ 97,889	\$ 49,311	\$

We evaluated the reserve balances as of September 12, 2009 based on current information and have concluded that they are adequate to cover future costs. We will continue to monitor the status of the vacant and subsidized properties, severance and benefits, and pension withdrawal liabilities, and adjustments to the reserve balances may be recorded in the future, if necessary.

### 8. Asset Disposition Initiatives

In addition to the events described in Note 7 - Discontinued Operations, there were restructuring transactions which were not primarily related to our discontinued operations businesses. These events are referred to based on the year the transaction was initiated, as described below.

Restructuring charges relate principally to employee severance and occupancy costs resulting from the closure of facilities and other workforce reductions attributable to our efforts to reduce costs. The costs of these reductions have been and will be funded through cash from operations. Occupancy costs represent

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

facility consolidation and lease termination costs associated with our decision to consolidate and close duplicative or excess warehouse and office facilities, unproductive and excess facilities.

### 2005 Event

During fiscal 2005, our Company sold our U.S. distribution operations and some warehouse facilities and related assets to C&S Wholesale Grocers, Inc. The Asset Purchase Agreement included the assignment of our leases in Central Islip, New York and Baltimore, Maryland, and a warranty deed for our owned facilities in Dunmore, Pennsylvania.

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

### 2001 Event

During the third quarter of fiscal 2001, 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.

### 1998 Event

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.

Summarized below is a reconciliation of the liabilities related to restructuring obligations resulting from these activities:

	For the 28 Weeks Ended September 12,			
	Balance at 2/28/2009	Interest Accretion (1)	Adjustments (2)	Ut
2005 Event				
Occupancy - Continuing Operations	\$ 1,114	\$ 11	\$ (1,120)	\$
Severance - Continuing Operations	904	--	46	
2005 event total	2,018	11	(1,074)	
2001 Event				
Occupancy - Continuing Operations	7,080	251		3
Occupancy - Discontinued Operations	11,307	343		4
2001 event total	18,387	594		7
1998 Event				
Occupancy - Continuing Operations	8,696	151	(1,398)	

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Severance - Continuing Operations	824	--	--
Occupancy - Discontinued Operations	543	13	--
1998 event total	10,063	164	(1,398)
Total	\$ 30,468	\$ 769	\$ (2,465)

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

	Fiscal 2008			
	Balance at 2/23/2008	Interest Accretion (1)	Adjustments (2)	Ut
2005 Event				
Occupancy - Continuing Operations	\$ 1,231	\$ 48	\$ (91)	\$
Severance - Continuing Operations	1,686	--	--	
2005 event total	2,917	48	(91)	
2001 Event				
Occupancy - Continuing Operations	6,755	385	1,794	
Occupancy- Discontinued Operations	12,281	688	(166)	
2001 event total	19,036	1,073	1,628	
1998 Event				
Occupancy - Continuing Operations	6,958	316	4,111	
Severance - Continuing Operations	1,000	--	--	
Occupancy - Discontinued Operations	1,093	49	(8)	
1998 event total	9,051	365	4,103	
Total	\$ 31,004	\$ 1,486	\$ 5,640	\$

(1) The additions to occupancy represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. These adjustments are recorded to "Store operating, general and administrative expense" for continuing operations and "Loss from operations of discontinued operations" for discontinued operations on our Consolidated Statements of Operations.

(2) 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. These adjustments are recorded to "Store operating, general and administrative expense" for continuing

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

operations and "Loss from operations of discontinued operations" as noted for discontinued operations on our Consolidated Statements of Operations.

For the 28 Weeks Ended September 12, 2009

-----  
 For the 28 weeks ended September 12, 2009, we recorded an adjustment eliminating occupancy related costs of \$1.1 million due to the termination of the lease on the one remaining property included in the 2005 Event. We also recorded an adjustment reducing occupancy related costs by \$1.4 million for the 1998 event, primarily due to entering into new sublease agreements that were more favorable than our original estimates.

Fiscal 2008

-----  
 During fiscal 2008, we recorded an adjustment reducing occupancy related costs by \$0.1 million for the 2005 event due to changes in our estimation of such future costs. We also recorded adjustments for additional occupancy related costs of \$1.6 million and \$4.1 million, respectively, for the 2001 and 1998 events due to changes in our estimation of such future costs.

- (3) Occupancy utilization represents payments made during those periods for rent. Severance and benefits utilization represents payments made to terminated employees during the period.

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

Summarized below are the payments made to date from the time of the original charge and expected future payments related to these events:

	2005 Event	2001 Event	1998 Event	
	-----	-----	-----	-----
Total severance payments made to date	\$ 48,875	\$ 28,205	\$ 30,720	\$
Expected future severance payments	790	--	744	
Total severance payments expected to be incurred	----- 49,665	----- 28,205	----- 31,464	
Total occupancy payments made to date	13,856	63,976	117,535	
Expected future occupancy payments, excluding interest accretion	--	17,382	5,695	
Total occupancy payments expected to be incurred, excluding interest accretion	----- 13,856	----- 81,358	----- 123,230	
Total severance and occupancy payments made to date	62,731	92,181	148,255	

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Expected future severance and occupancy payments, excluding interest accretion	790	17,382	6,439	
	-----	-----	-----	-----
Total severance and occupancy payments expected to be incurred, excluding interest accretion	\$ 63,521	\$ 109,563	\$ 154,694	\$
	=====	=====	=====	=====

Payments to date were primarily for occupancy related costs such as rent, common area maintenance, real estate taxes, lease termination costs, severance, and benefits. The remaining obligation relates to expected future payments under long-term leases and expected future payments for early withdrawal from multi-employer union pension plans. The expected completion dates for the 2005, 2001 and 1998 events are 2015, 2022 and 2020, respectively.

Summarized below are the amounts included in our balance sheet captions on our Company's Consolidated Balance Sheets related to these events:

	September 12, 2009			
	2005 Event	2001 Event	1998 Event	
	-----	-----	-----	-----
Other accruals	\$ 271	\$ 2,817	\$ 3,214	\$
Other non-current liabilities	\$ 519	\$ 14,565	\$ 3,225	\$

	February 28, 2009			
	2005 Event	2001 Event	1998 Event	
	-----	-----	-----	-----
Other accruals	\$ 384	\$ 2,965	\$ 4,142	\$
Other non-current liabilities	\$ 1,634	\$ 15,422	\$ 5,921	\$

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

We evaluated the reserve balances as of September 12, 2009 based on current information and have concluded that they are adequate to cover future costs. We will continue to monitor the status of the vacant and subsidized properties, severance and benefits, and pension withdrawal liabilities, and adjustments to the reserve balances may be recorded in the future, if necessary.

9. Other Accruals

Other accruals are comprised of the following:

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

	At Sept. 12, 20
	-----
Self-insurance reserves	\$ 77,377
Closed store and warehouse reserves	59,862
Pension withdrawal liabilities	10,461
GHI contract liability	6,050
Accrued occupancy related costs for open stores	26,010
Deferred income	19,065
Deferred real estate income	5,907
Accrued audit, legal and other	9,381
Accrued interest	17,098
Other postretirement and postemployment benefits	4,153
Accrued advertising	2,543
Dividends payable on preferred stock	1,615
Other	2,020
	-----
Total	\$ 241,542
	=====

10. Other Non-Current Liabilities

Other non-current liabilities are comprised of the following:

	At Sept. 12, 20
	-----
Unrecognized Tax Benefits	\$ 156,267
Self-insurance Reserves	150,271
Closed Store and Warehouse Reserves	144,502
Pension Withdrawal Liabilities	91,847
GHI Contract Liability for Employee Benefits	93,039
Pension Plan Benefits	108,086
Other Postretirement and Postemployment Benefits	34,621
Corporate Owned Life Insurance Liability	57,918
Deferred Rent Liabilities	55,030
Deferred Income	75,103
Unfavorable Lease Liabilities	23,031
Other	14,728
	-----
Total	\$ 1,004,443
	=====

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

11. Redeemable Preferred Stock

On August 4, 2009, our Company issued 60,000 shares of 8.0% Cumulative

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Convertible Preferred Stock, Series A-T, without par value, to affiliates of Tengelmann Warenhandels-gesellschaft KG ("Tengelmann") and 115,000 shares of 8.0% Cumulative Convertible Preferred Stock, Series A-Y, without par value, to affiliates of Yucaipa Companies LLC ("Yucaipa"), together referred to as the "Preferred Stock," for approximately \$162.2 million, after deducting approximately \$12.8 million in closing and issuance costs. Each share of the Preferred Stock has an initial liquidation preference of one thousand dollars, subject to adjustment.

The Preferred Stock is convertible into shares of our Company's common stock, par value \$1.00 per share (the "Common Stock"), at an initial conversion price of \$5.00 per share of Common Stock. The Preferred Stock is convertible upon the one-year anniversary of the issuance of Preferred Stock provided that prior to receiving shareholder approval, the Preferred Stock will not be exercisable into greater than 19.99% of the Common Stock outstanding prior to the issuance of the Preferred Stock. The 57,750 shares that are currently convertible without shareholder approval are classified as temporary stockholders' equity since the shares are (i) redeemable at the option of the holder and (ii) have conditions for redemption which are not solely within the control of the Company. The 117,250 shares that require shareholder approval in order to become convertible are classified as a "Preferred stock liability".

Prior to shareholder approval, the holders of Series A Convertible Preferred Stock have the right to vote on an as-converted basis provided that the aggregate number of votes entitled to be cast by the Series A Convertible Preferred Stock does not exceed 19.99% and the Series A-T Convertible Preferred Stock does not exceed 1% of the voting power of the common stock outstanding immediately prior to the issuance of the Series A Convertible Preferred Stock.

Our Company is required to redeem all of the outstanding Preferred Stock on August 1, 2016 (the "Maturity Date"), at 100.0% of the liquidation preference, plus all accrued and unpaid dividends. Subject to the repurchase rights of the investors, the Preferred Stock is not redeemable prior to the Maturity Date. At any time after December 3, 2012, in the event of any fundamental change, the investors may elect to request our Company to repurchase the Preferred Stock in cash at 101% of the liquidation preference amount plus any accrued and unpaid dividends.

The holders of the Preferred Stock are entitled to an 8.0% dividend, payable quarterly in arrears in cash or in additional shares of Preferred Stock if our Company is not able to pay the dividends fully in cash. If our Company makes a dividend payment in additional shares of Preferred Stock, the Preferred Stock shall be valued at the liquidation preference of the Preferred Stock and the dividend rate will be 8.0% plus 1.5%. During the 12 weeks ended September 12, 2009, we accrued Preferred Stock dividends of \$1.6 million, \$1.1 million of which has been recorded within "Interest expense" and \$0.5 million recorded within "Additional paid-in capital". In addition, during the 12 weeks ended September 12, 2009, we recorded \$0.2 million of deferred financing fees amortization, \$0.1 million of which was recorded within "Interest expense" and \$0.1 million recorded within "Additional paid-in capital".

The portion of the issuance recorded within "Preferred stock liability" is recorded at fair value, with the related issuance cost amortization recorded within "Interest expense".

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

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

The shares classified within temporary equity contained an embedded beneficial conversion feature as the fair value of the Company's common stock on the date of issuance, \$5.67 per share, was in excess of the effective conversion price of \$4.74 per share, which represents the \$5.00 per share conversion price reduced for fees paid to the investors. This embedded beneficial conversion feature resulted in a discount of \$10.8 million, which has been recorded within "Additional paid-in capital" and will be amortized over a seven-year period from the date of issuance until the stated redemption date. During the 12 weeks ended September 12, 2009, we accreted \$0.2 million relating to the beneficial conversion feature through "Additional paid-in capital".

Certain features of the Preferred Stock constitute derivatives separate from the Preferred Stock; however, at issuance, those features had little or no value and are not expected to have significant value for the foreseeable future.

### 12. Indebtedness and Other Financial Liabilities

#### Series A and B Warrants

-----

As part of the acquisition of Pathmark on December 3, 2007, we issued 4,657,378 and 6,965,858 roll-over stock warrants in exchange for Pathmark's 2005 Series A and Series B warrants, respectively. The Series A warrants were exercised on May 7, 2008 at a price of \$18.36; the Series B warrants are exercisable at \$32.40 and expire on June 9, 2015. The Tengelmenn stockholders have the right to approve any issuance of common stock under these warrants upon exercise (assuming Tengelmenn's outstanding interest is at least 25% and subject to liquidity impairments defined within the Tengelmenn Stockholder Agreement). In addition, Tengelmenn has the ability to exercise a "Put Right" whereby it has the ability to require our Company to purchase our common stock held by Tengelmenn to settle these warrants. Based on the rights provided to Tengelmenn, our Company does not have sole discretion to determine whether the payment upon exercise of these warrants will be settled in cash or through issuance of an equivalent portion of our shares. Therefore, these warrants are recorded as liabilities and marked-to-market each reporting period based on our Company's current stock price.

On May 7, 2008, the 4,657,378 Series A warrants were exercised by Yucaipa Corporate Initiatives Fund I, L.P., Yucaipa American Alliance Fund I, L.P. and Yucaipa American Alliance (Parallel) Fund I, L.P. We opted to settle the Series A warrants in cash totaling \$45.7 million rather than issuing additional common shares. Included in "Nonoperating income" on our Consolidated Statements of Operations for the 12 and 28 weeks ended September 6, 2008, is a loss of nil and \$1.2 million, respectively, for the Series A warrants through the settlement date of May 7, 2008 and a gain of \$48.8 million and \$76.0 million, respectively, for Series B warrants market value adjustments. "Nonoperating income" for the 12 and 28 weeks ended September 12, 2009 includes a loss of \$7.1 million and \$9.0 million, respectively, relating to market value adjustments for Series B warrants. The value of the Series B warrants as of September 12, 2009 and February 28, 2009 was \$13.7 million and \$4.8 million, respectively, and is included in "Other financial liabilities" on our Consolidated Balance Sheets. The following assumptions and estimates were used in the Black-Scholes model for the Series B warrants:

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



## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

	Sept. 12, 2009	February 28, 2009
Expected life	5.74 years	6.28 years
Volatility	65.6%	61.3%
Dividend yield range	0%	0%
Risk-free interest rate	2.29%	2.69%

### Public Debt Obligations

-----

On December 18, 2007, we completed a public offering and issued \$165.0 million 5.125% Convertible Senior Notes due 2011 and \$255.0 million 6.750% Convertible Senior Notes due 2012. The 5.125% Notes are not redeemable at our option at any time. The 6.750% Notes are redeemable at our option on or after December 15, 2010, at a redemption price of 102.70% and on or after December 15, 2011, at a redemption price of 101.35%. The initial conversion price of the 5.125% Notes is \$36.40, representing a 30.0% premium to the offering price of \$28.00 and the initial conversion price of the 6.750% Notes is \$37.80, representing a 35.0% premium to the offering price of \$28.00 at maturity, and at our option, the notes are convertible into shares of our stock, cash, or a combination of stock and cash.

As of December 18, 2007, our Company did not have sufficient authorized shares to provide for all potential issuances of common stock. Therefore, our Company accounted for the conversion features as freestanding instruments. The notes were recorded with a discount equal to the value of the conversion features at the transaction date and will be accreted through "Interest expense" to the par value of the notes over the life of the notes. The value of the conversion features was determined utilizing the Black-Scholes option pricing model and recorded as a long-term liability. The portion of the conversion features for which there was not shares available for settlement of conversions was marked to market each balance sheet date. On June 26, 2008, at a special meeting of stockholders, the number of shares of common stock we have the authority to issue was increased to 160,000,000, based on a majority vote by our stockholders. During the 12 and 28 weeks ended September 6, 2008, we recorded a loss of \$1.7 million and a gain of \$9.4 million, respectively, in "Nonoperating income" on our Consolidated Statements of Operations for the conversion features of the 5.125% convertible senior notes. During the 12 and 28 weeks ended September 6, 2008, the gain that was recorded in "Nonoperating income" in our Consolidated Statement of Operations for the conversion features of the 6.750% convertible senior notes was nil and \$5.1 million, respectively. Based on an increase in available shares primarily due to the settlement of our Series A warrants during the first quarter of fiscal 2008 and the increase in authorized shares during the second quarter of fiscal 2008, the fair value of the conversion features of the 5.125% and 6.750% convertible senior notes of \$13.8 million and \$14.7 million, respectively, was reclassified to "Additional paid-in-capital" on our Consolidated Statements of Stockholder's Equity and Comprehensive (Loss) Income as of June 26, 2008. The following assumptions and estimates were used in the Black-Scholes model:

	As of June 26, 2008
Expected life	3.0 years
Volatility	33.4%

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Dividend yield range	0%
Risk-free interest rate range	3.11%

The \$255.0 million aggregate principal amount of the 6.750% Convertible Senior Notes due 2012 is subject to the provisions of FSP APB 14-1, which we adopted during our first quarter ended June 20, 2009 (refer to

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

Note 2 - Impact of New Accounting Pronouncements). We estimate that our effective interest rate for similar debt without the conversion feature is approximately 12.000%. During the 12 weeks ended September 12, 2009 and September 6, 2008, we recognized additional non-cash interest expense of \$1.0 million and \$0.7 million, respectively, relating to our adoption of FSP APB 14-1. During the 28 weeks ended September 12, 2009 and September 6, 2008, we recognized additional non-cash interest expense of \$2.2 million and \$1.7 million, respectively, relating to our adoption of FSP APB 14-1. The net carrying value of outstanding debt as of September 12, 2009 and February 28, 2009 was \$219.7 million and \$215.1 million, respectively, net of unamortized discount of \$35.3 million and \$39.9 million, respectively. As of September 12, 2009, our remaining unamortized discount will be recognized as follows:

Remainder of 2009	\$	4,187
2010		9,884
2011		11,139
2012		10,140
		-----
	\$	35,350
		=====

### Senior Secured Notes

On August 4, 2009, we completed a \$260.0 million offering of 11.375% senior secured notes due 2015 (the "Notes") at a price equal to 97.385% of their face value. The Notes represent second lien secured obligations, guaranteed by all of our Company's domestic subsidiaries. The Notes bear interest at a fixed rate of 11.375% payable semi-annually in cash. As of September 12, 2009, the carrying value of the notes was \$253.3 million. The proceeds from this offering and our preferred stock offering on August 4, 2009 (Refer to Note 11 - Redeemable Preferred Stock) were used to repay a portion of our existing variable debt.

The Notes were offered only to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and outside the United States, only to non-U.S. investors pursuant to Regulation S. The Notes have not been registered under the Securities Act or the securities laws of any other jurisdiction and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The Notes contain the usual and customary covenants found in secured notes, including, among other things, restrictions on the incurrence of additional indebtedness, asset sales, liens and restricted payments.

### Credit Agreement

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

-----  
On December 3, 2007, we entered into a new \$675.0 million Credit Agreement with Banc of America Securities LLC and Bank of America, N.A., as the co-lead arranger. On December 27, 2007, in order to facilitate the syndication of the Credit Agreement under current market conditions, we entered into an Amended and Restated Credit Agreement, whereby a portion of the revolving commitments was converted into a \$50.0 million term loan tranche, which was collateralized by certain real estate assets at an increased margin rate. On July 23, 2009, our Company amended the Amended and Restated Credit Agreement in connection with the private offering of senior secured notes and the sale of preferred stock. The amended agreement increases the applicable margins on credit advances, reduces commitments by \$20.0 million, reduces the collateral advance and provides for certain other amendments. Subject to borrowing base requirements, the amended Credit Agreement provides for a five-year term loan of \$82.9 million, the previously issued five year term loan of \$50.0 million and a five-year revolving credit facility of \$522.1 million enabling us to borrow funds and issue letters of credit on a revolving basis. The Credit Agreement

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

includes a \$100.0 million accordion feature, which provides us with the ability to increase commitments from \$655.0 million to \$755.0 million, subject to agreement of new and existing lenders. Our obligations under the Credit Agreement are secured by certain assets of our Company, including, but not limited to, inventory, certain accounts receivable, pharmacy scripts, owned real estate and certain Pathmark leaseholds. The Pathmark leaseholds are removed as eligible collateral throughout fiscal 2009, which resulted in a reduction in borrowing availability of \$25.0 million on March 1, 2009 and \$25.0 million on June 1, 2009 and will result in reductions of an additional \$23.0 million on December 1, 2009, for a total reduced borrowing availability of approximately \$73.0 million. Borrowings under the Credit Agreement bear interest based on LIBOR or Prime interest rate pricing. Subject to certain conditions, we are permitted to pay cumulative cash dividends on common shares, as well as make bond repurchases. This agreement expires in December 2012.

As of September 12, 2009, there were \$132.9 million of loans and \$199.6 million in letters of credit outstanding under this agreement. As of September 12, 2009, after reducing availability for borrowing base requirements, we had \$231.5 million available under the Credit Agreement. In addition, we have invested cash available to reduce borrowings under this Credit Agreement or to use for future operations of \$251.2 million as of September 12, 2009.

### Call Option and Financing Warrants

-----

Concurrent with the issuance of the convertible senior notes, our Company issued financing warrants in conjunction with the call options recorded as equity in the Consolidated Balance Sheet to effectively increase the conversion price of these notes and reduce the potential dilution upon future conversion. The financing warrants allow holders to purchase common shares at \$46.20 with respect to the 5.125% Notes and \$49.00 with respect to the 6.750% Notes. The financing warrants were valued at \$36.8 million at the issuance date. At the issuance date, our Company did not have sufficient authorized shares to provide for all potential issuances of common stock. Therefore, the financing warrants were accounted for as freestanding derivatives, required to be settled in cash until sufficient shares are available and are recorded as a long-term liability in the Consolidated Balance Sheet. On June 26, 2008, at a special meeting of

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

stockholders, the number of shares of common stock we have the authority to issue was increased to 160,000,000 based on a majority vote by our stockholders. Thus, the financing warrants were marked to market through June 26, 2008 utilizing the Black-Scholes option pricing model. These financing warrants are no longer classified as a liability as of June 26, 2008. During the 12 and 28 weeks ended September 6, 2008, we recorded a loss of \$4.2 million and a gain of \$2.3 million, respectively, relating to these warrants, which was included in "Nonoperating income" on our Consolidated Statements of Operations. The following assumptions and estimates were used in the Black-Scholes model:

	At June 26, 2008
Expected life	3.3 years - 4.8 years
Volatility	33.4%
Dividend yield range	0%
Risk-free interest rate range	3.11% - 3.54%

We understand that on or about October 3, 2008, Lehman Brothers OTC Derivatives, Inc. or "LBOTC" who accounts for 50% of the call option and financing warrant transactions filed for bankruptcy protection, which is an event of default under such transactions. We are carefully monitoring the developments

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

affecting LBOTC, noting the impact of the LBOTC bankruptcy effectively reduced conversion prices for 50% of our convertible senior notes to their stated prices of \$36.40 for the 5.125% Notes and \$37.80 for the 6.750% Notes.

In the event we terminate these transactions, or they are canceled in bankruptcy, or LBOTC otherwise fails to perform its obligations under such transactions, we would have the right to monetary damages in the form of an unsecured claim against LBOTC in an amount equal to the present value of our cost to replace these transactions with another party for the same period and on the same terms.

### 13. Interest Expense

Interest expense is comprised of the following:

	For the 12 weeks ended		F
	Sept. 12, 2009	Sept. 6, 2008 (1)	Sept.
\$675 million Credit Agreement	\$ 3,208	\$ 4,932	\$
Related Party Promissory Note, due Aug. 18, 2011	137	8	
11.375% Senior Secured Notes, due Aug. 1, 2015	3,565	--	
9.125% Senior Notes, due December 15, 2011	270	270	
5.125% Convertible Senior Notes,			

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

due June 15, 2011	1,951	1,946	
6.750% Convertible Senior Notes,			
due December 15, 2012	3,972	3,961	
9.375% Notes, due August 1, 2039	4,280	4,315	
Capital Lease Obligations and			
Real Estate Liabilities	11,964	10,975	
Dividends on Preferred Stock Liability	1,082	--	
Self Insurance and GHI Interest	3,446	1,913	
GHI Discount Rate Adjustment and			
COLI Non-cash Interest	8,443	777	
Amortization of Deferred Financing Fees			
and Discounts	6,073	5,312	
Other	168	271	
	-----	-----	-----
Total	\$ 48,559	\$ 34,680	\$
	=====	=====	=====

(1) The interest expense associated with the 6.750% convertible senior notes increased by \$0.7 million and \$1.7 million, respectively, from the amounts reported in our Form 10-Q for the 12 and 28 weeks ended September 6, 2008 as a result of the retrospective application of FSP APB 14-1, which we adopted during the first quarter of fiscal 2009. Refer to Note 2 - Impact of New Accounting Pronouncements for additional information.

14. Earnings Per Share

Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average shares outstanding for the reporting period. Diluted earnings (loss) per share reflects all potential dilution, using either the treasury stock method or the "if-converted" method, and assumes that the

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

convertible debt, stock options, restricted stock, performance restricted stock, warrants, preferred stock, and other potentially dilutive financial instruments were converted into common stock on the first day of the period. If the conversion of a potentially dilutive security yields an antidilutive result, such potential dilutive security is excluded from the diluted earnings per share calculation.

The following table contains common share equivalents, which were not included in the loss per share calculations as their effect would be antidilutive:

	12 Weeks Ended		
	Sept. 12, 2009	Sept. 6, 2008	Sept.
	-----	-----	-----
Stock options	2,608,718	1,767,767	2,1
Warrants	686,277	686,277	6

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Performance restricted stock units	512,578	524,843	6
Restricted stock units	1,440,176	--	8
Financing warrant	11,278,988	11,278,988	11,2
Preferred stock	11,590,600	--	11,5
Convertible debt	3,553,806	3,553,806	8,0

The portion of our August 2009 preferred stock issuance recorded within "Preferred stock liability" is not included in our Company's earnings (loss) per share calculation or the above table due to the fact that the related shares are not legally convertible without prior shareholder approval.

The following table sets forth the calculation of basic and diluted earnings per share:

	12 Weeks Ended		Sept.
	Sept. 12, 2009	Sept. 6, 2008	
Loss from continuing operations	\$ (62,159)	\$ (4,289)	\$
Preferred stock dividends	(533)	--	
Beneficial conversion feature amortization	(178)	--	
Loss from continuing operations - basic	(62,870)	(4,289)	
Adjustments for convertible debt (1)	(25,573)	(35,846)	
Adjustments on Other financial liabilities (2)	7,080	(48,846)	
Loss from continuing operations-diluted	\$ (81,363)	\$ (88,981)	\$
Weighted average common shares outstanding	58,124,672	57,654,527	57
Share lending agreement (3)	(4,927,944)	(8,134,002)	(4
Common shares outstanding-basic	53,196,728	49,520,525	53
Effect of dilutive securities:			
Convertible debt (1)	7,725,182	7,725,182	3
Convertible financial liabilities (2)	(34,307,444)	(4,975,613)	(35
Common shares outstanding-diluted	26,614,466	52,270,094	21

(1) We have debt instruments with a bifurcated conversion feature that were recorded at a significant discount. (Refer to Note 12 - Indebtedness and Other Financial Liabilities). For purposes of determining if an application of the "if-converted method" to these convertible instruments produces a dilutive result, we always consider the combined impact of the numerator and

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

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

denominator adjustments, including a numerator adjustment for gains and losses, which would have been incurred had the instruments been converted on the first day of the period presented.

- (2) Our Series B Warrants are classified as a liability because a third party has the right to determine their cash or share settlement. (Refer to Note 12 - Indebtedness and Other Financial Liabilities). These warrants are marked-to-market on our income statement. For example, in periods when the market price of our common stock decreases, our income from continuing operations is increased. For purposes of determining if an application of the treasury stock method produces a dilutive result, we assume proceeds are used to repurchase common stock and we adjust the numerator similar to the adjustments required under the "if-converted" method. We always consider the combined impact of the numerator and denominator adjustments, including a denominator adjustment to reduce shares, even when the average market price of our common stock for the period is below the warrant's strike price.
- (3) We have 8,134,002 loaned shares under our share lending agreements, which are considered issued and outstanding. However, the obligation of the financial institutions to return the borrowed shares has been accounted for as prepaid forward contract and, accordingly, shares underlying this contract are removed from the computation of basic and diluted earnings per share, unless the borrower defaults on returning the related shares. On September 15, 2008, Lehman Europe, who is a party to a 3,206,058 share lending agreement with our Company filed under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court and/or commenced equivalent proceedings in jurisdictions outside of the United States (collectively, the "Lehman Bankruptcy"). As such, we have included these loaned shares as issued and outstanding effective September 15, 2008 for purposes of computing our basic and diluted weighted average shares and (loss) income per share. For the 12 and 28 weeks ended September 12, 2009 and September 6, 2008, weighted average common shares relating to share lending agreement of 4,927,944 and 8,134,002, respectively, were excluded from the computation of earnings per share.

### 15. Retirement Plans and Benefits

#### Defined Benefit Plans

We provide retirement benefits to certain non-union and union employees under various defined benefit plans. Our defined benefit pension plans are non-contributory and benefits under these plans are generally determined based upon years of service and, for salaried employees, compensation. We fund these plans in amounts consistent with the statutory funding requirements. We use our fiscal year end as the measurement date.

On June 30, 2007, the UFCW Local 174 Retail Pension Fund ("UFCW") experienced a mass withdrawal termination, which caused our Company to incur a mass withdrawal liability. On July 14, 2009, our Company signed a Transfer Agreement, pursuant to which our Company agreed to pay UFCW \$0.7 million, representing the amount of the mass withdrawal liability owed to UFCW, including benefit payments from July 2007 through July 2009, which has already been accrued in our Consolidated Financial Statements. The remainder of our mass withdrawal liability will be settled by transferring the existing pension benefit liabilities relating to our employees and retirees from UFCW to the A&P Pension Plan. On July 29, 2009, the A&P Pension Plan has been amended for the transfer of the UFCW pension benefit obligation effective July 1, 2009.

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

# Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

(Unaudited)

The components of net pension cost were as follows:

	For the 12 Weeks Ended		For the 28 Weeks Ended	
	Sept. 12, 2009	Sept. 6, 2008	Sept. 12, 2009	Sept. 6, 2008
Service cost	\$ 1,545	\$ 1,960	\$ 3,568	\$ 4,118
Interest cost	6,819	6,279	15,638	14,812
Expected return on plan assets	(5,708)	(7,496)	(13,319)	(15,125)
Amortization of:				
Net prior service cost	68	63	159	159
Actuarial loss	1,090	27	2,525	2,525
Special termination benefits	250	--	650	--
Net pension cost	\$ 4,064	\$ 833	\$ 9,221	\$ 11,587

## Contributions

As of September 12, 2009, we contributed approximately \$3.5 million to our defined benefit plans. We plan to contribute approximately \$3.5 million to our plans during the remainder of fiscal 2009.

## Postretirement Plans

We provide postretirement health care and life insurance benefits to certain union and non-union employees. We recognize the cost of providing postretirement benefits during employees' active service periods. We use our fiscal year end as the measurement date for our postretirement benefits. The components of net postretirement benefits cost (income) were as follows:

	For the 12 Weeks Ended		For the 28 Weeks Ended	
	Sept. 12, 2009	Sept. 6, 2008	Sept. 12, 2009	Sept. 6, 2008
Service cost	\$ 117	\$ 234	\$ 273	\$ 546
Interest cost	449	529	1,048	1,048
Amortization of:				
Prior service credit	(310)	(311)	(725)	(725)
Actuarial gain	(189)	--	(441)	--
Net postretirement benefits cost	\$ 67	\$ 452	\$ 155	\$ 871

## GHI Contractual Obligation

We have a contractual obligation to fund pension benefits for certain employees of Grocery Haulers, Inc. ("GHI") who handle transportation and logistics services for our Pathmark stores. Upon our acquisition of Pathmark in December 2007, this obligation was accounted for as an unfavorable contract based on liabilities allocable to GHI, net of related assets, which were held by the Multiemployer Pension Plan ("the Fund") jointly sponsored by the Local 863 Union



## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

and various other employers. Effective August 29, 2008, GHI, the Fund, and our Company entered into a series of agreements which collectively provided that: (i) GHI withdrew from the Fund; (ii) our Pathmark Pension Plan would be amended to become a multiple employer plan to provide for the participation in the plan by certain GHI employees; and (iii) the Fund liabilities allocable to GHI and a portion of the Fund assets would be transferred to the Pathmark Pension Plan. As a result, pension assets attributable to GHI's employees of \$13.6 million were transferred from

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

the Fund in January 2009 and combined with the existing Pathmark Pension Plan's assets. Since the assets in the Pathmark Pension Plan are available to pay pension benefits of both our Company's employees and GHI's employees servicing our Pathmark stores, the transferred assets are treated as pension plan assets. However, since GHI's employees covered by this plan are not employees of our Company, our obligation to fund their pension benefits is accounted for as a separate contractual obligation at its fair value.

As of September 12, 2009 and February 28, 2009, the fair value of our contractual obligation to GHI's employees was \$99.1 million and \$91.4 million, respectively, using discount rates of 5.750% and 7.000%, respectively, which were derived from the published zero-coupon AA corporate bond yields. Our contractual obligation relating to pension benefits for GHI's employees is included within "Other accruals" and "Other non-current liabilities" in our Consolidated Balance Sheets. Additions to our GHI contractual obligation for current service costs and actuarial gains and losses are recorded within "Cost of merchandise sold" in our Consolidated Statements of Operations at their current value. Accretion of the obligation to present value is recorded within "Interest expense" in our Consolidated Statements of Operations. During the 12 and 28 weeks ended September 12, 2009, we recognized service costs of \$0.2 million and \$0.4 million, respectively, and interest expense of \$9.0 million and \$15.4 million, respectively, representing interest accretion and the impact of the lower discount rate used to value this obligation, resulting from a decline in the published zero-coupon AA corporate bond yields. During the 28 weeks ended September 12, 2009, benefit payments of \$8.1 million were made by the Pathmark Pension Plan.

### 16. Stock Based Compensation

During the 12 and 28 weeks ended September 12, 2009, compensation expense related to share-based incentive plans was \$1.2 million and \$4.1 million, after tax, respectively, compared to \$2.1 million and \$7.0 million, after tax, during the 12 and 28 weeks ended September 6, 2008, respectively. Included in share-based compensation expense recorded during the 12 and 28 weeks ended September 12, 2009 was \$0.4 million and \$0.8 million, respectively, related to expensing of stock options, \$0.4 million and \$0.5 million, respectively, relating to expensing of restricted stock units, \$0.2 million and \$2.4 million, respectively, relating to expensing of performance restricted stock units, and \$0.2 million and \$0.4 million, respectively, relating to expensing of common stock granted to our Board of Directors at the Annual Meeting of Stockholders. Included in share-based compensation expense recorded during the 12 and 28 weeks ended September 6, 2008 was \$0.2 million and \$0.8 million, respectively, related to expensing of stock options, \$1.8 million and \$5.9 million, respectively, relating to expensing of restricted stock, and \$0.1 million and \$0.3 million,

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

respectively, relating to expensing of common stock granted to our Board of Directors at the Annual Meeting of Stockholders. We did not capitalize any of our stock based compensation costs during the 12 and 28 weeks ended September 12, 2009 and the 12 and 28 weeks ended September 6, 2008.

At September 12, 2009, we had two stock-based compensation plans, the 2008 Long Term Incentive and Share Award Plan and the 2004 Non-Employee Director Compensation Plan. The general terms of each plan are reported in our Fiscal 2008 Annual Report on Form 10-K.

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

### Stock options

The following is a summary of the stock option activity during the 28 weeks ended September 12, 2009:

	Shares	Weighted Average Exercise Price	Weighted Rem Cont Term
	-----	-----	-----
Outstanding at February 28, 2009	1,551,934	\$ 23.77	
Granted	1,010,319	4.01	
Canceled or expired	(69,813)	26.70	
Exercised	(477)	3.86	
	-----	-----	
Outstanding at September 12, 2009	2,491,963	\$ 15.68	
	=====	=====	=====
Exercisable at:			
September 12, 2009	1,325,506	\$ 23.06	
			=====
Nonvested at:			
September 12, 2009	1,166,457	\$ 7.30	
			=====

Fair values for each stock option grant were estimated using a Black-Scholes valuation model which utilized assumptions as detailed in the following table for expected life based upon historical option exercise patterns, historical volatility and risk-free rate based on the U.S. Treasury constant maturities in effect at the time of grant. Our stock options have a contractual term of 10 years. The following assumptions were in place for grants that occurred during the 28 weeks ended September 12, 2009 and September 6, 2008:

28 Weeks Ended Sept. 12, 2009	28 Weeks Ended Sept. 6, 2008
-----	-----

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Expected life	7 years	7 years
Volatility	126%	52%
Risk-free interest rate	0.05%	2.96%

The weighted average grant date fair value of stock options granted during the 28 weeks ended September 12, 2009 and September 6, 2008 was \$3.63 and \$14.64, respectively. Options granted during fiscal 2009 vest 33% during each of the fiscal years 2009, 2010 and 2011. Options granted during fiscal 2008 vest 25% on each anniversary date of issuance over a four year period. As of September 12, 2009, approximately \$4.7 million, after tax, of total unrecognized compensation expense related to unvested stock option awards will be recognized over a weighted average period of 2.5 years.

The total intrinsic value of options exercised during 28 weeks ended September 12, 2009 and September 6, 2008 was nil and \$0.5 million, respectively.

The amount of cash received from the exercise of stock options during the 28 weeks ended September 12, 2009 was not significant.

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

### Restricted Stock Units

-----

During the first quarter of fiscal 2009, our Company granted 1,440,176 shares of time-vested restricted stock awards to certain eligible employees, with a total grant date fair value of \$5.8 million, which is based on the fair market value of our Company's common stock at the date of grant. One-fourth of these awards will vest at the end of fiscal 2009 and three-fourths will vest at the end of fiscal 2011, subject to meeting the appropriate eligibility and service conditions. As of September 12, 2009, approximately \$4.1 million, net of tax, of total unrecognized compensation expense relating to these restricted stock units is expected to be recognized through fiscal 2012.

The following is a summary of the restricted stock units activity during the 28 weeks ended September 12, 2009:

	Shares	Weighted Average Grant Date Fair Value
	-----	-----
Nonvested at February 28, 2009	--	\$ --
Granted	1,440,176	4.01
Canceled or expired	--	--
Vested	--	--
	-----	-----
Nonvested at September 12, 2009	1,440,176	\$ 4.01
	=====	=====

### Performance Restricted Stock Units

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

The following is a summary of the performance restricted stock units activity during the 28 weeks ended September 12, 2009:

	Shares	Weighted Average Grant Date Fair Value
	-----	-----
Nonvested at February 28, 2009	1,815,537	\$ 26.17
Granted	1,439,673	4.01
Canceled or expired	(226,875)	26.53
Vested	(585,795)	15.97
	-----	-----
Nonvested at September 12, 2009	2,442,540	\$ 15.52
	=====	=====

Performance restricted stock units are granted at the fair market value of our Company's common stock at the date of grant, adjusted by an estimated forfeiture rate.

During the 28 weeks ended September 12, 2009, our Company granted 1,439,673 shares of performance restricted stock units to selected employees for a total grant date fair value of \$5.8 million. Approximately \$4.6 million of unrecognized fair value compensation expense relating to these performance restricted stock units, and those issued in the previous years is expected to be recognized through fiscal 2011, based on estimates of attaining vesting criteria.

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

Performance restricted stock units issued during fiscal 2009 are earned based on our Company achieving certain operating targets in fiscal 2009. One-third of these awards are scheduled to vest at the end of fiscal 2009 and two-thirds are scheduled to vest at the end of fiscal 2010, subject to meeting the appropriate eligibility and service conditions. During the 12 weeks ended September 12, 2009, our Company reversed the stock compensation expense for our fiscal 2009 performance restricted stock units grant recorded during the first quarter of fiscal 2009, due to our determination that the related performance conditions will not be achieved.

On May 21, 2009, our Board of Directors modified the terms of the performance restricted stock units granted in fiscal 2007 under our executive and non-executive Closing & Integration Incentive Plan ("CLIIP"), by removing the achievement of specific stock price targets as a precondition to the vesting of earned units. The Board also approved a modification of the vesting schedule for non-executives such that earned units will vest as follows: one-third in July 2009, one-third in July 2010 and one-third in July 2011. Vesting of earned units for executives will occur on December 3, 2010. All vesting remains subject to the other terms and conditions of the CLIIP. Additionally, on July 16, 2009, the Board determined that 100% of the restricted stock units had been earned under the CLIIP. In connection with this decision, we reversed \$0.4 million of previously recognized expense for the ancillary shares during the 12 weeks ended

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

September 12, 2009.

As a result of the foregoing modification and Board determination, our Company will incur an additional incremental compensation cost of \$1.5 million, of which \$0.2 million and \$0.5 million has been recorded during the 12 and 28 weeks ended September 12, 2009, respectively, and is being recognized over the remainder of the new vesting period.

The total fair value of units that vested during the 28 weeks ended September 12, 2009 and 28 weeks ended September 6, 2008 was \$3.0 million and \$12.1 million, respectively.

### 17. Income Taxes

The income tax provisions recorded for the 12 and 28 weeks ended September 12, 2009 and September 6, 2008 reflect our estimated expected annual tax rates applied to our respective financial results.

A deferred tax asset is recognized for temporary differences that will result in deductible amounts in future years and for carryforwards. In addition, a valuation allowance is recognized 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 net 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 net deferred tax asset the amount expected to be realized. For the 12 and 28 weeks ended September 12, 2009, the valuation allowance decreased by \$2.1 million and increased by \$21.8 million, respectively, to reflect generation of additional operating losses, offset by an adjustment to the valuation allowance that was released in connection with the original purchase price allocation for Pathmark. For the 12 and 28 weeks ended September 6, 2008, the valuation allowance increased by \$33.2 million and \$79.8 million, respectively, to reflect the increase in deferred income tax assets recorded relating to the purchase price allocation adjustment relating to our acquisition of Pathmark Stores, Inc., as

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

well as generation of additional net operating losses. To the extent that our operations generate sufficient taxable income in future periods, we will reverse the income tax valuation allowance. In future periods, we will continue to record a valuation allowance against net deferred tax assets that are created by losses until such time as the certainty of future tax benefits can be reasonably assured.

Our Company is subject to U.S. federal income tax, as well as income tax in multiple state and foreign jurisdictions. As of September 12, 2009, we remain subject to examination by federal, state and local tax authorities for tax years 2004 through 2008. With a few exceptions, we are no longer subject to federal, state or local examinations by tax authorities for tax years 2003 and prior.

As of September 12, 2009, there have been no changes to our Company's uncertain tax position disclosures as discussed in Note 14 of our Company's Fiscal 2008 Annual Report on Form 10-K. At this time, we estimate that the amount of our

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

gross unrecognized tax positions may decrease by up to approximately \$154.0 million within the next 12 months, primarily due to the settlement of ongoing audits and lapses of statutes of limitations in certain jurisdictions. Any decrease in our Company's gross unrecognized tax positions would require a re-evaluation of our Company's valuation allowance maintained on our net deferred tax asset and, therefore, is not expected to affect our effective tax rate.

For the 12 and 28 weeks ended September 12, 2009 and September 6, 2008, no amounts were recorded for interest and penalties within "Provision for income taxes" in our Consolidated Statements of Operations.

On July 30, 2008, The Housing Assistance Act of 2008 ("the Act") was signed into law. The Act contained a provision allowing corporate taxpayers to make an election to treat certain unused research and Alternative Minimum Tax (AMT) credit carryforwards as refundable in lieu of claiming bonus and accelerated depreciation for "eligible qualified property" placed in service through the end of fiscal 2008. The American Reinvestment and Recovery Tax Act, which was enacted on February 17, 2009, extended this election through 2009. We expect the refund to be approximately \$1.7 million for the 28 weeks ended September 12, 2009, for a total refund of \$4.1 million to date.

The effective tax rate on continuing operations of 3.1% and 31.9% for the 12 weeks ended September 12, 2009 and September 6, 2008, respectively, and 1.3% and 263.0% for the 28 weeks ended September 12, 2009 and September 6, 2008, respectively, varied from the statutory rate of 35%, primarily due to the recording of state and local income taxes, the recording of additional valuation allowance and the impact of the Pathmark financing.

As of September 12, 2009, we had \$548.5 million in federal Net Operating Loss ("NOL") carryforwards that expire between 2023 and 2029, some of which are subject to an annual limitation. The federal NOL carryforwards include \$7.4 million related to the excess tax deductions relating to stock option plans that have yet to reduce income taxes payable. Upon utilization of these carryforwards, the associated tax benefits of approximately \$2.6 million will be recorded in "Additional paid-in capital". In addition, our Company had state loss carryforwards of \$5.6 million that expire during fiscal 2009 and approximately \$1.0 billion that will expire between fiscal 2010 and fiscal 2029. Our Company's general business credits consist of federal and state work incentive credits, which expire between fiscal 2010 and fiscal 2029, some of which are subject to an annual limitation.

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

At September 12, 2009 and February 28, 2009, we had a net current deferred tax asset which is included in "Prepaid expenses and other current assets" on our Consolidated Balance Sheets of \$31.9 million and \$36.9 million, respectively, a net non-current deferred tax asset which is included in "Other Assets" on our Consolidated Balance Sheets of \$93.8 million and \$65.9 million, respectively, and a non-current tax liability for uncertain tax positions which is included in "Other non-current liabilities" and "Other assets" on our Consolidated Balance Sheets of \$162.8 million as of both dates.

### 18. Operating Segments

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

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 President and Chief Executive Officer.

During the second quarter of fiscal 2008, our chief operating decision maker changed the manner by which our results are evaluated; therefore, our reportable segments have been revised to be consistent with the way we currently manage our business. Accordingly, we have revised our segment reporting to report in four reportable segments: Fresh, Price Impact, Gourmet and Other. The Other segment includes our Food Basics and Liquor businesses. The criteria necessary to classify the Midwest and Greater New Orleans areas as discontinued were satisfied in fiscal 2007 and these operations have been presented as such in our Consolidated Statements of Operations for all periods presented. Refer to Note 7 - Discontinued Operations for further discussion. Prior year information has been restated to conform to current year presentation.

The accounting policies for these segments are the same as those described in the summary of significant accounting policies included in our Fiscal 2008 Annual Report. We measure segment performance based upon segment income (loss). Reconciling amounts between segment income (loss) and income (loss) from operations include corporate-level activity not specifically attributed to a segment, which includes (i) the purchase of all merchandise (including the design and production of private label merchandise sold in our retail stores), (ii) real estate management and (iii) information technology, finance and other corporate administrative personnel, as well as, other reconciling items primarily attributed to nonrecurring activities.

Assets and capital expenditures are not allocated to segments for internal reporting presentations.

Interim information on segments is as follows:

	Sales by Category			
	For the 12 weeks ended		For the 28 weeks	
	Sept. 12, 2009	Sept. 6, 2008	Sept. 12, 2009	Sept.
Grocery (1)	\$ 1,429,161	\$ 1,502,879	\$ 3,368,761	\$
Meat (2)	391,877	419,488	918,648	
Produce (3)	244,023	260,269	567,895	
<b>Total</b>	<b>\$ 2,065,061</b>	<b>\$ 2,182,636</b>	<b>\$ 4,855,304</b>	<b>\$</b>

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

- (1) The grocery category includes grocery, frozen foods, dairy, general merchandise/health and beauty aids, liquor and pharmacy.
- (2) The meat category includes meat, deli, bakery and seafood.
- (3) The produce category includes produce and floral.

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

	For the 12 weeks ended		For the 28 weeks ended	
	Sept. 12, 2009	Sept. 6, 2008	Sept. 12, 2009	Sept. 6, 2008
Sales				
Fresh	\$ 1,042,713	\$ 1,118,794	\$ 2,429,453	\$ 2,429,453
Price Impact**	898,655	947,792	2,137,878	2,137,878
Gourmet	56,010	56,717	141,391	141,391
Other	67,683	59,333	146,582	146,582
Total sales	\$ 2,065,061	\$ 2,182,636	\$ 4,855,304	\$ 4,855,304
Segment income (loss)				
Fresh	32,768	29,044	74,009	74,009
Price Impact	(15,313)	(2,926)	(17,088)	(17,088)
Gourmet	3,311	2,475	11,430	11,430
Other	734	641	1,657	1,657
Total segment income	21,500	29,234	70,008	70,008
Corporate	(15,515)	(22,961)	(61,751)	(61,751)
Reconciling items*	(14,551)	(17,796)	(18,659)	(18,659)
(Loss) from continuing operations	(8,566)	(11,523)	(10,402)	(10,402)
Nonoperating income (loss)	(7,079)	42,895	(8,954)	(8,954)
Interest expense (1)	(48,559)	(34,680)	(102,807)	(102,807)
Interest and dividend income	51	57	92	92
(Loss) income from continuing operations before income taxes	\$ (64,153)	\$ (3,251)	\$ (122,071)	\$ (122,071)

(1) The interest expense associated with the 6.750% Convertible Senior Notes increased by \$0.7 million and \$1.7 million, respectively, from the amounts reported in our Form 10-Q for the 12 and 28 weeks ended September 6, 2008 as a result of the retrospective application of FSP APB 14-1, which we adopted during the first quarter of fiscal 2009. Refer to Note 2 - Impact of New Accounting Pronouncements for additional information.

The following table presents our segment depreciation and amortization:

	For the 12 weeks ended		For the 28 weeks ended	
	Sept. 12, 2009	Sept. 6, 2008	Sept. 12, 2009	Sept. 6, 2008
Segment depreciation and amortization				
Fresh	\$ 19,152	\$ 21,116	\$ 45,446	\$ 45,446
Price Impact**	22,925	23,406	53,483	53,483
Gourmet	2,148	2,387	5,049	5,049
Other	1,015	853	2,235	2,235
Total segment depreciation and amortization - continuing operations	45,240	47,762	106,213	106,213
Corporate	12,544	13,035	29,359	29,359



## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Total company depreciation and amortization	\$ 57,784	\$ 60,797	\$ 135,572	\$
	=====	=====	=====	=====

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

- \* Reconciling items for the 12 and 28 weeks ended September 12, 2009, which are not included in segment income primarily include: (i) losses on real estate activity of \$11.5 million and \$9.2 million, respectively, (ii) net restructuring and other costs of \$2.2 million and \$4.8 million, respectively, (iii) pension withdrawal costs of nil and \$2.4 million, respectively, and (iv) LIFO reserve adjustments of \$0.9 million and \$2.2 million, respectively. Reconciling items for the 12 and 28 weeks ended September 6, 2008 include: (i) Pathmark integration and other restructuring costs of \$10.6 million and \$22.6 million, respectively, (ii) LIFO reserve adjustments of \$1.5 million and \$3.0 million, respectively, and (iii) real estate related activity of \$5.6 million and \$6.4 million, respectively.
- \*\* Includes results from Fresh stores that have been subsequently converted to Price Impact stores.

### 19. Related Party Transactions

On August 4, 2009, the Company issued 60,000 shares of 8.0% Cumulative Convertible Preferred Stock, Series A-T, without par value, to affiliates of Tengelmann and 115,000 shares of 8.0% Cumulative Convertible Preferred Stock, Series A-Y, without par value, to affiliates of Yucaipa for net proceeds of approximately \$162.2 million. Concurrently with the issuance of the Preferred Stock, the Company entered into an amended and restated stockholder agreement with Tengelmann (the "Amended and Restated Tengelmann Stockholder Agreement") and an amended and restated stockholder agreement with Yucaipa (the "Amended and Restated Yucaipa Stockholder Agreement" and, together with the Amended and Restated Tengelmann Stockholder Agreement, the "Stockholder Agreements"), amended its By-laws and filed Articles Supplementary with respect to the Preferred Stock, appointed two additional Yucaipa directors to the Company's Board and reelected four existing Tengelmann directors to the Company's Board.

Without Tengelmann and Yucaipa's approval, the Company may not consummate certain business combinations, issue additional equity securities, amend the Company's charter or by-laws, make amendments to Board committee charters which would circumvent the Stockholder Agreements, take actions which would dilute their ownership, take actions to amend certain of the Company's existing indebtedness or limit the Company's ability to pay cash dividends on the Preferred Stock. In addition, depending upon specified ownership thresholds maintained by Tengelmann and Yucaipa, without the approval of a majority of Tengelmann-appointed directors and at least one Yucaipa-appointed director, the Company may not enter into certain acquisitions or dispositions of assets, offer or repurchase equity securities, incur debt above specified levels or declare dividends on the Company's common stock. Based upon certain ownership thresholds, without Tengelmann's approval, the Company may not adopt certain anti-takeover measures or enter into affiliates transactions and the approval of a majority of Tengelmann directors may be required in order to adopt or amend any long-term strategic plan, adopt or amend any operating plan or budget or make capital expenditures over a certain threshold or appoint a chief executive officer.

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

The Company granted certain registration rights, preemptive rights and rights to nominate directors to the Company's Board to Tengemann and Yucaipa and certain tag-along rights to Yucaipa. In addition, Yucaipa granted the Company a right of first offer under certain circumstances on the transfer of voting power, which if exercised by the Company would then provide Tengemann the right to purchase any such securities, pursuant to an agreement between the Company and Tengemann.

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

Until August 4, 2014, or earlier if certain conditions occur, Yucaipa is subject to a standstill provision which prevents Yucaipa, without the approval of the majority of the Board of Directors (excluding the directors designated by Yucaipa), from acquiring beneficial ownership of securities above a 35.5% common stock threshold. Prior to December 4, 2010, subject to limited exceptions, Yucaipa may not transfer its Preferred Stock and is prohibited from transferring any securities to certain designated persons.

### 20. Commitments and Contingencies

#### Supply Agreement

On March 7, 2008, we entered into a definitive agreement with C&S Wholesale Grocers, Inc. ("C&S") whereby C&S will provide warehousing, logistics, procurement and purchasing services (the "Services") in support of our Company's entire supply chain. This agreement replaces and supersedes three (3) separate wholesale supply agreements under which the parties had been previously operating. The term of the agreement is ten and one-half (10-1/2) years, which includes a six-month "ramp-up" period during which the parties will transition to the new contractual terms and conditions. The agreement provides that the actual costs of performing the services shall be reimbursed to C&S on an "open-book" or "cost-plus" basis, whereby the parties will negotiate annual budgets that will be reconciled against actual costs on a periodic basis. The parties will also annually negotiate services specifications and performance standards that will govern warehouse operations. The agreement defines the parties' respective responsibilities for the procurement and purchase of merchandise intended for use or resale at our Company's stores, as well as the parties' respective remuneration for warehousing and procurement/purchasing activities. In consideration for the services it provides under the agreement, C&S will be paid an annual fee and will have incentive income opportunities based upon our cost savings and increases in retail sales volume. The contract provides that we will purchase virtually all of our warehoused inventory from C&S. Although there are a limited number of distributors that can supply our stores, we believe that other suppliers could provide similar product on comparable terms. However, a change in suppliers could cause a delay in distribution and a possible loss of sales which would affect our results adversely.

#### Lease Related

##### Lease Assignment

-----  
On August 14, 2007, Pathmark entered into a leasehold assignment contract for the sale of its leasehold interests in one of its stores to CPS Operating

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Company LLC, a Delaware limited liability company ("CPS"). Pursuant to the terms of the agreement, Pathmark was to receive \$87.0 million for assigning and transferring to CPS all of Pathmark's interest in the lease and CPS was to have assumed all of the duties and obligations of Pathmark under the lease. CPS deposited \$6.0 million in escrow as a deposit against the purchase price for the lease, which is non-refundable to CPS, except as otherwise expressly provided in the agreement. The assignment of the lease was scheduled to close on December 28, 2007. On December 27, 2007, CPS issued a notice terminating the agreement for reason of a purported breach of the agreement, which, if proven, would require the return of the escrow. We are disputing the validity of CPS's notice of termination as we believe CPS's position is without merit. Because we are challenging the validity of CPS's December 27, 2007 notice of termination, we issued our own notice to CPS on December 31, 2007, asserting CPS's breach of the agreement as a result of their failure to close on December 28, 2007. CPS's

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

breach, if proven, would entitle us to keep the escrow. Both parties have taken legal action to obtain the \$6.0 million deposit held in escrow.

### Other

-----

In the normal course of business, we have assigned to third parties various leases related to former operating stores (the "Assigned Leases") for which we generally remained secondarily liable. As such, if any of the assignees were to become unable to make payments under the Assigned Leases, we could be required to assume the lease obligation. As of September 12, 2009, 196 Assigned Leases remain in place. Assuming that each respective assignee became unable to make payments under an Assigned Lease, an event we believe to be remote, we estimate our maximum potential obligation with respect to the Assigned Leases to be approximately \$608.7 million, which could be partially or totally offset by reassigning or subletting these leases.

### Legal Proceedings

#### Antitrust Class Action Litigation

-----

In connection with a settlement reached in the VISA/MasterCard antitrust class action litigation, our Company is entitled to a portion of the settlement fund that will be distributed to class members. Pursuant to our review of our historical records as well as estimates provided by the Claims Administrator, we recorded a pre-tax recovery of \$2.2 million as a credit to "Store operating, general and administrative expense" in our Statements of Consolidated Operations during fiscal 2008. During fiscal 2009, we will continue to work with the Claims Administrator to ensure that any additional monies owed to our Company in connection with this litigation are received. This process may result in additional recoveries being recorded in future periods.

LaMarca et al v. The Great Atlantic & Pacific Tea Company, Inc et al.

-----

("Defendants")

-----

On June 24, 2004, a class action complaint was filed in the Supreme Court of the State of New York against The Great Atlantic & Pacific Tea Company, Inc., d/b/a A&P, The Food Emporium, and Waldbaum's alleging violations of the overtime provisions of the New York Labor Law. Three named plaintiffs, Benedetto LaMarca,

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Dolores Guidy, and Stephen Tedesco, alleged on behalf of a class that our Company failed to pay overtime wages to full-time hourly employees who were either required or permitted to work more than 40 hours per week.

In April 2006, the plaintiffs filed a motion for class certification. In July 2007, the Court granted the plaintiffs' motion and certified the class as follows: All full-time hourly employees of Defendants who were employed in Defendants' supermarket stores located in the State of New York, for any of the period from June 24, 1998 through the date of the commencement of the action, whom Defendants required or permitted to perform work in excess of 40 hours per week without being paid overtime wages. In December 2008, the Court approved the Form of Notice, which included an "opt-out" provision and in January 2009, the Plaintiffs mailed the Notice to potential class members and the opt-out deadline expired in March 2009. The parties have commenced discovery. Our Company intends to move to decertify the class once certain discovery has been completed.

As discovery on the plaintiffs has recently commenced, neither the number of class participants nor the sufficiency of their respective claims can be determined at this time.

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

### Other

-----

We are subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. We are also subject to certain environmental claims. While the outcome of these claims cannot be predicted with certainty, Management does not believe that the outcome of any of these legal matters will have a material adverse effect on our consolidated results of operations, financial position or cash flows.

### 21. Subsequent Events

Our Company concluded that there were no subsequent events that have occurred from September 12, 2009 through October 20, 2009, the date of filing of this Quarterly Report on Form 10-Q.

## ITEM 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

### INTRODUCTION

-----

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to help the reader understand the financial position, operating results, and cash flows of The Great Atlantic & Pacific Tea Company, Inc. It should be read in conjunction with our consolidated financial statements and the accompanying notes ("Notes"). It discusses matters that Management considers relevant to understanding the business environment, financial position, results of operations and our Company's liquidity and capital resources. These items are presented as follows:

- o Basis of Presentation - a discussion of our Company's results during the 12

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

- o and 28 weeks ended September 12, 2009 and September 6, 2008.
- o Overview - a general description of our business; the value drivers of our business; measurements; opportunities; challenges and risks; and initiatives.
- o Outlook - a discussion of certain trends or business initiatives for the remainder of fiscal 2009 to assist in understanding the business.
- o Results of Operations and Liquidity and Capital Resources - a discussion of results for the 12 weeks ended September 12, 2009 compared to the 12 weeks ended September 6, 2008; results for the 28 weeks ended September 12, 2009 compared to the 28 weeks ended September 6, 2008; current and expected future liquidity; and the impact of various market risks on our Company.
- o Critical Accounting Estimates - a discussion of significant estimates made by Management.
- o Market Risk - a discussion of the impact of market changes on our consolidated financial statements.

### BASIS OF PRESENTATION

-----

The accompanying consolidated financial statements of The Great Atlantic & Pacific Tea Company, Inc. for the 12 and 28 weeks ended September 12, 2009 and September 6, 2008 are unaudited and, in the opinion of management, contain all adjustments that are of a normal and recurring nature necessary for a fair statement of 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 2008 Annual Report to Stockholders 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 subsidiaries.

### OVERVIEW

-----

The Great Atlantic & Pacific Tea Company, Inc., based in Montvale, New Jersey, operates conventional supermarkets, combination food and drug stores and discount food stores in 8 U.S. states and the District of Columbia. Our Company's business consists strictly of our retail operations, which totaled 432 stores as of September 12, 2009.

For the 28 weeks ended September 12, 2009, we operated in four reportable segments: Fresh, Price Impact, Gourmet and Other. The Other segment includes our Food Basics and Liquor businesses. The criteria necessary to classify the Midwest and Greater New Orleans area as discontinued were satisfied in fiscal 2007 and these operations have been classified as such in our Consolidated Statements of Operations for the 12 and 28 weeks ended September 12, 2009 and September 6, 2008.

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

### OPERATING RESULTS

-----

This quarter was challenging for our Company as the retail market continued to experience one of the most difficult economic environments in recent history. Consumers have continued to trade down to less expensive products, which resulted in increased competition and, as a result, our Company invested more in value driven pricing programs and offerings. In addition, the rate of inflation has decreased significantly with deflation in several categories. As a result, our comparable store sales, which include stores that have been in operation for at least one full fiscal year and replacement stores, declined by 3.8% this

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

quarter.

Our business operates in four formats, which enable us to service customers in every market we serve, with the following operating results:

### Fresh

(A&P, Waldbaum's and SuperFresh)

Our Fresh format continues to deliver strong year-over-year improvement in segment income, primarily driven by the higher gross margin rate in the second quarter of fiscal 2009 due to negotiated cost reductions with our vendors, partially offset by a decline in sales.

### Price Impact

(Pathmark and Pathmark Sav-A-Center)

Our Price Impact format continued to experience a year-over-year decline in segment income, which was driven by negative comparable store sales and lower gross margins, primarily resulting from higher promotional spending and reduction in everyday prices to stay competitive. Our consumers have been very value focused in this difficult economic environment and have continued to take advantage of our promotions, requiring us to invest more in value driven programs in order to stay competitive. Although, in the shorter term, this has negatively impacted our earnings, we believe that this strategic investment well-positions us to generate long-term growth over time and once the overall economy improves.

Our eight stores that have been converted from the Fresh segment to the Price Impact format are performing very well because converted stores retain the more favorable A&P legacy cost structure, while taking advantage of the higher sales per square foot generated by the traditional Pathmark locations.

### Gourmet

(The Food Emporium)

Our Gourmet stores located in Manhattan continue to generate segment income growth despite the economic crisis, primarily due to an increased gross margin rate. We attribute this growth to the premium locations of our Gourmet stores and product offering selective to the neighborhood.

### Other

(Food Basics, Best Cellars and A&P Liquors)

The businesses comprising our Other format continued to perform well with a year-over-year increase in segment income due to positive comparable store sales and improved gross margin rate. The businesses within our Other segment traditionally perform well during recessionary economic times.

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

### OUTLOOK

-----

The current economic indicators including rising unemployment, increasing price competition and deflation have continued to create an even more challenging economic environment. These factors are having an increasingly negative impact on our operations. As a result, our Company has undertaken substantial business optimization initiatives designed to mitigate this downward pressure and improve our performance while taking advantage of the best practices between the legacy A&P and the acquired Pathmark businesses. The following key areas have been identified as business improvement opportunities:

Improved private label penetration

Private label penetration tends to increase during recessionary times. Our

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

programs under this initiative are expected to increase gross margins offsetting more promotional investment. Our expansive private label program, which includes our Green Way organic product line, is a critical component of our long-term strategy and will enable us to continue to meet our customer's needs, while addressing their financial constraints with products comparable in quality to their national brand equivalents. Our private label penetration has improved by over 17% from last year in terms of overall sales.

### Store Conversions

We are completing an evaluation of each neighborhood marketplace in which our stores operate and are assessing the best opportunities for our four formats within these neighborhoods. We are prioritizing the most cost-beneficial use of funds to convert stores from existing formats to the format that will best serve the neighborhood marketplace and return improved results.

### Operating expenses

We plan to reduce our operating expenses by targeting the following areas:

- o Grocery Stock Losses - Stock losses tend to increase in periods of economic downturn. To combat this trend, we are continuing the rollout of our formal program to reduce stock losses, especially targeting our Price Impact business, which has the highest stock losses. We have implemented a formal program to reduce losses, including conducting internal theft and stock loss awareness training, increasing amount of security in high risk stores, upgrading in-store security cameras and implementing technology to reduce bottom of the basket losses. We are also planning strategic structural changes, such as reducing the amount of products subject to high theft, which should reduce future losses.
- o Trucking and Warehousing Costs - We continue to work with C&S and GHI to further reduce our costs by streamlining deliveries and optimizing trucking routes.
- o Productive labor - We are improving labor productivity by optimizing our formats and utilizing a variety of labor optimization processes.

While these initiatives have been designed to improve the results of our operations, they are based on our management's assumptions in light of the currently available information and cannot guarantee future performance. Our future performance is subject to uncertainties and other risk factors that could have a negative impact on our business and cause actual results to differ materially from our expectations. Refer to Part II. - Item 1A for a description of our Risk Factors.

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

This year marks our Company's historic 150th anniversary. We believe that our strong strategic position in the Northeast, our successful format strategy and our resolve to implement strategic changes, positions us to effectively manage the challenging economic environment and remain cautiously optimistic in our long-term prospects. The US retail market continues to face one of the most difficult and challenging years as our customers have experienced lower disposable income. We expect that our customers will continue to be challenged in 2010 and we are adjusting our strategy accordingly.

On August 4, 2009, we consummated the issuance and sale of 175,000 shares of 8.0% Cumulative Convertible Preferred Stock, for net proceeds of approximately \$162.2 million. In addition, on August 4, 2009, we completed a \$260 million

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

offering of 11.375% senior secured notes due 2015 to qualified institutional buyers at 97.385% of its principal amount. We believe that these transactions will allow us to better manage our liquidity through this recessionary economic environment.

We believe that our present cash resources and the available borrowings from our \$655.0 million Amended Credit Agreement and other sources are sufficient to meet our needs for the next twelve months. Based on information available to us, as of our filing date, we have no indication that the financial institutions acting as lenders under our \$655.0 million Amended Credit Agreement would be unable to fulfill their commitments. However, given the current economic environment and credit market crisis, there is no assurance that this may not change in the foreseeable future.

### RESULTS OF OPERATIONS AND LIQUIDITY AND CAPITAL RESOURCES

-----

Our consolidated financial information presents the results related to our operations of discontinued businesses separate from the results of our continuing operations. The discussion and analysis that follows focuses on continuing operations. All amounts are in millions, except share and per share amounts.

12 WEEKS ENDED SEPTEMBER 12, 2009 COMPARED TO THE 12 WEEKS ENDED

-----

SEPTEMBER 6, 2008

-----

#### OVERALL

-----

Sales for the second quarter of fiscal 2009 were \$2,065.1 million, compared with \$2,182.6 million for the second quarter of fiscal 2008 due primarily due to a 3.8% decrease in comparable store sales, which include stores that have been in operation for at least one full fiscal year and replacement stores. Loss from continuing operations increased from \$4.3 million for the first quarter of fiscal 2008 to a loss from continuing operations of \$62.2 million for the second quarter of fiscal 2009, primarily due to a \$50.0 million decline in nonoperating income associated with the fair value adjustments for our Series A and Series B warrants, our convertible senior notes, and our financing warrants, as well as \$9.0 million of interest expense recorded during the second quarter of fiscal 2009 in connection with our GHI contractual obligation, and \$4.9 million of interest expense recorded in connection with our senior secured notes and preferred stock issuances in August 2009. Loss from discontinued operations of \$13.8 million for the second quarter of fiscal 2008 increased to a loss from discontinued operations of \$18.1 million for the second quarter of fiscal 2009 primarily due to higher occupancy related costs for closed stores recorded during the second quarter of fiscal 2009. Net loss per share - basic and diluted for the second quarter of fiscal 2009 was \$(1.52) and \$(3.74), respectively, compared to net loss per share - basic of \$(0.37) and net loss per share - diluted of \$(1.97) for the second quarter of fiscal 2008.

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

12 Weeks Ended Sept. 12, 2009	12 Weeks Ended Sept. 6, 2008	Favorable (Unfavorable)
-----	-----	-----



## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

(in millions, except percentages)

Sales	\$ 2,065.1	\$ 2,182.6	\$ (117.5)
(Decrease) increase in comparable store sales	(3.8)%	2.8%	NA
Loss from continuing operations	\$ (62.2)	\$ (4.3)	\$ (57.9)
Loss from discontinued operations	\$ (18.1)	\$ (13.8)	\$ (4.3)
Net loss	\$ (80.3)	\$ (18.1)	\$ (62.2)
Net loss per share - basic	\$ (1.52)	\$ (0.37)	\$ (1.15)
Net loss per share - diluted	\$ (3.74)	\$ (1.97)	\$ (1.77)

Average weekly sales per supermarket were approximately \$417,000 for the second quarter of fiscal 2009 versus \$428,000 for the corresponding period of the prior year, a decrease of 2.6%, primarily due to the overall decline in our sales resulting from the current economic environment and its negative effect on consumer spending, as well as a lower rate of inflation.

### SALES

-----

	For the 12 weeks ended	
	Sept. 12, 2009	Sept. 6, 2008
	(in thousands)	
Fresh	\$ 1,042,713	\$ 1,118,794
Price Impact*	898,655	947,792
Gourmet	56,010	56,717
Other	67,683	59,333
<b>Total sales</b>	<b>\$ 2,065,061</b>	<b>\$ 2,182,636</b>
	=====	=====

-----

\* Includes sales from Fresh stores that have been subsequently converted to Price Impact stores.

Sales decreased from \$2,182.6 million for the 12 weeks ended September 6, 2008 to \$2,065.1 million for the 12 weeks ended September 12, 2009, primarily due to a decrease in comparable stores sales and the absence of sales due to store closures, partially offset by sales from new stores. The decrease in sales in our Fresh segment of \$76.1 million was primarily related to the decline in the comparable store sales of \$46.8 million and the absence of sales due to store closures of \$29.3 million. The decrease in sales in our Price Impact segment of \$49.1 million was primarily due to a decline in comparable store sales of \$31.7 million and the absence of sales due to store closures of \$28.9 million, partially offset by an increase in sales from new stores of \$11.5 million. Sales generated by our Gourmet segment decreased by \$0.7 million, primarily due to a decline in comparable store sales. The sales increase of \$8.4 million, or 14.1%, in our Other segment, representing Discount and Liquor, was primarily driven by sales generated by new stores of \$8.3 million.

### GROSS MARGIN

-----

Gross margin of \$623.4 million increased 34 basis points as a percentage of

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

sales to 30.19% for the second quarter of fiscal 2009 from gross margin of \$651.5 million or 29.85% for the second quarter of fiscal 2008, as lower margins from our Price Impact segment were offset by improved margins from our Fresh and Gourmet segments.

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

The following table details the dollar impact of items affecting the gross margin dollar (decrease) increase from the second quarter of fiscal 2008 to the second quarter of fiscal 2009 (in millions):

	Sales Volume -----	Gross Margin Rate -----	Total -----
Total Company	\$ (35.1)	\$ 6.9	\$ (28.2)

### STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE

-----

Our Store operating, general and administrative ("SG&A") expense was \$631.9 million or 30.60% as a percentage of sales for the second quarter of fiscal 2009, as compared to \$663.1 million or 30.38% as a percentage of sales for the second quarter of fiscal 2008.

Included in SG&A for the second quarter of fiscal 2009 are (i) net real estate related costs of \$11.5 million, or 56 basis points and (ii) net restructuring and other costs of \$2.2 million, or 10 basis points.

SG&A for the second quarter of fiscal 2008 included (i) Pathmark integration and other restructuring related costs of \$11.0 million, or 50 basis points, and (ii) net losses on real estate activity of \$5.6 million, or 26 basis points.

Excluding the items listed above, SG&A as a percentage of sales increased by 32 basis points during the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008, primarily due to lower sales leverage on fixed costs, including increased labor costs of 41 basis points and increased general operating costs of 14 basis points, partially offset by decreased occupancy related costs of 17 basis points, primarily due to the successful progress with our utility improvement programs, and a decrease in corporate and banner administrative expenses of 11 basis points.

During the 12 weeks ended September 12, 2009 and September 6, 2008, we recorded impairment losses on long-lived assets due to closure or conversion of stores in the normal course of business of \$2.7 million and \$1.0 million, respectively.

The effects of changes in estimates of useful lives were not material to ongoing depreciation expense. If current operating levels do not improve, there may be a need to take further actions which may result in additional future impairments on long-lived assets, including the potential for impairment of assets that are held and used.

### SEGMENT INCOME (LOSS)

-----

For the 12 weeks ended

-----

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

	Sept. 12, 2009	Sept. 6, 2008
	-----	-----
	(in thousands)	
Fresh	\$ 32,768	\$ 29,044
Price Impact*	(15,313)	(2,926)
Gourmet	3,311	2,475
Other	734	641
	-----	-----
Total segment income	\$ 21,500	\$ 29,234
	=====	=====

-----  
 \* Includes results from Fresh stores that have been subsequently converted to Price Impact stores.

The Great Atlantic & Pacific Tea Company, Inc.  
 Management's Discussion and Analysis - Continued

Segment income decreased \$7.7 million from \$29.2 million for the 12 weeks ended September 6, 2008 to \$21.5 million for the 12 weeks ended September 12, 2009. The increase in segment income of \$3.7 million from our Fresh segment was primarily driven by an increase in the gross margin rate due to negotiated cost reductions, as well as reduced labor and occupancy costs, partially offset by a decline in sales. Our Price Impact segment experienced a decline in segment income of \$12.4 million, which was attributable to lower sales and gross margins, primarily resulting from reductions in everyday prices to stay competitive and higher promotional spending for this segment, partially offset by reduced productive labor, transportation costs and utility expenses. Segment income from our Gourmet business increased by \$0.8 million, primarily as a result of an improved gross margin rate, partially offset by a reduction in sales. The increase in segment income of \$0.1 million from our Other segment, representing Discount and Liquor, was primarily driven by improved sales, partially offset by increased operating costs. Refer to Note 18 - Operating Segments for further discussion of our reportable operating segments.

#### NONOPERATING INCOME (LOSS)

-----

During the second quarter of fiscal 2009 and 2008, we recorded unfavorable fair value adjustments of \$7.1 million and favorable fair value adjustments of \$42.9 million, respectively, relating to our Series B warrants acquired in connection with our purchase of Pathmark, the conversion features related to our 5.125% convertible senior notes and our 6.750% convertible senior notes, and our financing warrants issued in connection with our convertible senior notes.

#### INTEREST EXPENSE

-----

Interest expense of \$48.6 million for the first quarter of fiscal 2009 increased from the prior year expense of \$34.7 million, primarily due to (i) \$9.0 million of interest expense recorded during the second quarter of fiscal 2009, to reflect the impact of the lower discount rate used to revalue our GHI contractual obligation during the quarter, which is derived each period from published zero-coupon AA corporate bond yields, as well as interest accretion relating to this obligation, (ii) \$3.7 million of interest expense relating to our \$260 million offering of 11.375% senior secured notes due 2015 that were issued in August 2009 and (iii) \$1.2 million of interest expense relating to dividends and issuance cost amortization on the portion of our preferred stock issued in August 2009 that was classified as a liability due to the fact that it

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

cannot be converted to common stock without shareholder approval.

During the second quarter of fiscal 2009 and 2008, we recorded additional non-cash interest expense of \$1.0 million and \$0.7 million, respectively, relating to our \$255.0 million aggregate principal amount of the 6.750% Convertible Senior Notes that were issued in December 2007, as a result of our adoption of FSP APB Opinion No. 14-1, "Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion" during the first quarter of fiscal 2009.

### INCOME TAXES

-----

The benefit from income taxes from continuing operations for the second quarter of fiscal 2009 was \$2.0 million, compared to the provision for income taxes of \$1.0 million for the second quarter of fiscal 2008. Consistent with prior year, we continue to record a valuation allowance against our net deferred tax assets.

The effective tax rates on continuing operations of 3.1% and 31.9% for the 12 weeks ended September 12, 2009 and September 6, 2008, respectively, varied from the statutory rate of 35%, primarily due to the recording of state and local income taxes, the recording of additional valuation allowance and the impact of the Pathmark financing.

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

### DISCONTINUED OPERATIONS

-----

The loss from operations of discontinued businesses, net of tax, for the second quarter of fiscal 2009 of \$18.1 million decreased from a loss from operations of discontinued businesses, net of tax, of \$14.0 million for the second quarter of fiscal 2008, primarily due to higher occupancy related expenses recorded during the second quarter of fiscal 2009.

### 28 WEEKS ENDED SEPTEMBER 12, 2009 COMPARED TO THE 28 WEEKS ENDED

-----

SEPTEMBER 6, 2008

-----

### OVERALL

-----

Sales for the 28 weeks ended September 12, 2009 were \$4,855.3 million, compared with \$5,105.3 million for the 28 weeks ended September 6, 2008 due primarily to a 3.6% decrease in comparable store sales, which include stores that have been in operation for at least one full fiscal year and replacement stores. Loss from continuing operations increased from \$1.5 million for the 28 weeks ended September 6, 2008 to a loss from continuing operations of \$120.5 million for the 28 weeks ended September 12, 2009, primarily due to a \$100.4 million decline in nonoperating income associated with the fair value adjustments for our Series A and Series B warrants, our convertible senior notes, and our financing warrants, as well as \$15.4 million of interest expense recorded during the 28 weeks ended September 12, 2009 in connection with our GHI contractual obligation, and \$4.9 million of interest expense relating to our senior secured notes and preferred stock issuances in August 2009. Loss from discontinued operations increased from \$15.3 million for the 28 weeks ended September 6, 2008 to a loss from discontinued operations of \$25.0 million for the 28 weeks ended September 12, 2009, primarily due to higher occupancy related costs for closed stores recorded during the 28 weeks ended September 12, 2009, as well as the absence of the \$2.6 million settlement gain recorded during the 28 weeks ended September 6, 2008

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

relating to our sale of the Eight O'Clock Coffee business. Net loss per share - basic and diluted for the 28 weeks ended September 12, 2009 was \$(2.76) and \$(7.09), respectively, compared to net loss per share - basic of \$(0.34) and net loss per share - diluted of \$(2.52) for the 28 weeks ended September 6, 2008.

	28 Weeks Ended Sept. 12, 2009 -----	28 Weeks Ended Sept. 6 2008 -----	Favorable (Unfavorable) -----
	(in millions, except percentages)		
Sales	\$ 4,855.3	\$ 5,105.3	\$ (250.0)
(Decrease) increase in comparable store sales	(3.6)%	3.0%	NA
Loss from continuing operations	\$ (120.5)	\$ (1.5)	\$ (119.0)
Loss from discontinued operations	\$ (25.0)	\$ (15.3)	\$ (9.7)
Net loss	\$ (145.5)	\$ (16.8)	\$ (128.7)
Net loss per share - basic	\$ (2.76)	\$ (0.34)	\$ (2.42)
Net loss per share - diluted	\$ (7.09)	\$ (2.52)	\$ (4.57)

Average weekly sales per supermarket were approximately \$419,100 for the 28 weeks ended September 12, 2009 versus \$429,100 for the corresponding period of the prior year, a decrease of 2.3%, primarily due to the overall decline in our sales resulting from the current economic environment and its negative effect on consumer spending, as well as a lower rate of inflation.

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

### SALES

-----

	For the 28 weeks ended	
	Sept. 12, 2009	Sept. 6, 2008
	-----	
	(in thousands)	
Fresh	\$ 2,429,453	\$ 2,580,627
Price Impact*	2,137,878	2,249,981
Gourmet	141,391	141,745
Other	146,582	132,948
	-----	
Total sales	\$ 4,855,304	\$ 5,105,301
	=====	

-----  
\* Includes sales from Fresh stores that have been subsequently converted to Price Impact stores.

Sales decreased from \$5,105.3 million for the 28 weeks ended September 6, 2008 to \$4,855.3 million for the 28 weeks ended September 12, 2009, primarily due to

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

a decrease in comparable stores sales and the absence of sales due to store closures, partially offset by sales from new stores. The decrease in sales in our Fresh segment of \$151.2 million was primarily related to a decline in the comparable store sales of \$100.2 million and the absence of sales due to store closures of \$51.0 million. The decrease in sales in our Price Impact segment of \$112.1 million was primarily due to a decline in comparable store sales of \$78.9 million and the absence of sales due to store closures of \$50.0 million, partially offset by an increase in sales from new stores of \$16.8 million. Sales generated by our Gourmet segment decreased by \$0.4 million, primarily due to a decline in comparable store sales. The sales increase of \$13.6 million, or 10.3%, in our Other segment, representing Discount and Liquor, was primarily driven by increased sales generated by our Discount business, primarily due to sales from new stores of \$7.9 million and increased comparable store sales of \$5.9 million.

### GROSS MARGIN

-----

Gross margin of \$1,468.2 million increased 17 basis points as a percentage of sales to 30.24% for the 28 weeks ended September 12, 2009 from gross margin of \$1,535.1 million or 30.07% for the 28 weeks ended September 6, 2008, as lower margins from our Price Impact segment were offset by improved margins from our Fresh and Gourmet segments.

The following table details the dollar impact of items affecting the gross margin dollar (decrease) increase from the 28 weeks ended September 6, 2008 to the 28 weeks ended September 12, 2009 (in millions):

	Sales Volume -----	Gross Margin Rate -----	Total -----
Total Company	\$ (75.2)	\$ 8.3	\$ (66.9)

### STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE

-----

Our SG&A expense was \$1,478.6 million or 30.45% as a percentage of sales for the 28 weeks ended September 12, 2009, as compared to \$1,544.6 million or 30.25% as a percentage of sales for the 28 weeks ended September 6, 2008.

Included in SG&A for the 28 weeks ended September 12, 2009 are (i) net real estate costs of \$9.2 million, or 19 basis points, (ii) net restructuring and other costs of \$4.8 million, or 10 basis points, and (iii) pension withdrawal costs of \$2.4 million, or 5 basis points.

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

SG&A for the 28 weeks ended September 6, 2008 included (i) Pathmark integration and other restructuring related costs of \$25.1 million, or 49 basis points, and (ii) net losses on real estate activity of \$6.4 million, or 13 basis points.

Excluding the items listed above, SG&A as a percentage of sales increased by 48 basis points during the 28 weeks ended September 12, 2009 as compared to the 28 weeks ended September 6, 2008, primarily due to lower sales leverage on fixed costs, including increased labor costs of 47 basis points and increased general operating costs of 13 basis points, partially offset by a decrease in corporate and banner administrative expenses of 14 basis points.

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

During the 28 weeks ended September 12, 2009 and September 6, 2008, we recorded impairment losses on long-lived assets due to closure or conversion of stores in the normal course of business of \$3.7 million and \$1.8 million, respectively.

The effects of changes in estimates of useful lives were not material to ongoing depreciation expense. If current operating levels do not improve, there may be a need to take further actions which may result in additional future impairments on long-lived assets, including the potential for impairment of assets that are held and used.

### SEGMENT INCOME (LOSS)

-----

	For the 28 weeks ended	
	Sept. 12, 2009	Sept. 6, 2008
	-----	
	(in thousands)	
	-----	
Fresh	\$ 74,009	\$ 65,235
Price Impact*	(17,088)	17,454
Gourmet	11,430	9,890
Other	1,657	1,305
	-----	
Total segment income	\$ 70,008	\$ 93,884
	=====	

-----  
 \* Includes results from Fresh stores that have been subsequently converted to Price Impact stores.

Segment income decreased \$23.9 million from \$93.9 million for the 28 weeks ended September 6, 2008 to \$70.0 million for the 28 weeks ended September 12, 2009. The increase in segment income of \$8.8 million from our Fresh segment was primarily driven by an increase in the gross margin rate due to negotiated cost reductions, as well as reduced labor and occupancy costs, partially offset by a decline in sales. Our Price Impact segment experienced a decline in segment income of \$34.5 million, which was attributable to lower sales and gross margins, primarily resulting from higher promotional spending and reductions in everyday prices for this segment, partially offset by reduced productive labor, supply and logistics, and utility costs. Segment income from our Gourmet business improved by \$1.5 million, primarily as a result of an improved gross margin rate, partially offset by a reduction in sales. The increase in segment income of \$0.4 million in our Other segment, representing Discount and Liquor, is primarily driven by improved sales and gross margins rates from our Discount business. Refer to Note 18 - Operating Segments for further discussion of our reportable operating segments.

### NONOPERATING INCOME (LOSS)

-----

During the 28 weeks ended September 12, 2009 and September 6, 2008, we recorded unfavorable fair value adjustments of \$9.0 million and favorable fair value adjustments of \$91.5 million, respectively, relating to

The Great Atlantic & Pacific Tea Company, Inc.  
 Management's Discussion and Analysis - Continued

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

our Series B warrants acquired in connection with our purchase of Pathmark, the conversion features related to our 5.125% convertible senior notes and our 6.750% convertible senior notes, and our financing warrants issued in connection with our convertible senior notes.

### INTEREST EXPENSE

Interest expense of \$102.8 million for the 28 weeks ended September 12, 2009 increased from the prior year expense of \$81.6 million, primarily due to \$15.4 million of interest expense recorded during the 28 weeks ended September 12, 2009, to reflect the impact of the lower discount rate used to revalue our GHI contractual obligation at September 12, 2009, which is derived each period from published zero-coupon AA corporate bond yields, as well as interest accretion relating to this obligation. During the 28 weeks ended September 12, 2009, we also recorded \$3.7 million of interest expense relating to our \$260 million offering of 11.375% senior secured notes due 2015 that were issued in August 2009. In addition, during the 28 weeks ended September 12, 2009, we recorded \$1.2 million of interest expense relating to dividends and issuance cost amortization on the portion of our preferred stock issued in August 2009 that was classified as a liability due to the fact that it cannot be converted to common stock without shareholder approval.

During the 28 weeks ended September 12, 2009 and September 6, 2008, we recorded additional non-cash interest expense of \$2.3 million and \$1.7 million, respectively, relating to our \$255 million aggregate principle amount of the 6.750% Convertible Senior Notes that were issued in December 2007, as a result of our adoption of FSP APB Opinion No. 14-1, "Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion" during the first quarter of fiscal 2009.

### INCOME TAXES

The benefit from income taxes from continuing operations for the 28 weeks ended September 12, 2009 was \$1.6 million, compared to the provision for income taxes of \$2.4 million for 28 weeks ended September 6, 2008. Consistent with prior year, we continue to record a valuation allowance against our net deferred tax assets.

The effective tax rates on continuing operations of 1.3% and 263.0% for the 28 weeks ended September 12, 2009 and September 6, 2008, respectively, varied from the statutory rate of 35%, primarily due to the recording of state and local income taxes, the recording of additional valuation allowance and the impact of the Pathmark financing.

### DISCONTINUED OPERATIONS

The loss from operations of discontinued businesses, net of tax, for the 28 weeks ended September 12, 2009 of \$25.0 million decreased from a loss from operations of discontinued businesses, net of tax, of \$18.2 million for the 28 weeks ended September 6, 2008, primarily due to higher occupancy related expenses recorded during the 28 weeks ended September 12, 2009. The gain on disposal of discontinued operations of \$2.8 million, net of tax, recorded during the 28 weeks ended September 6, 2008, primarily related to the sale of our Eight O'Clock Coffee business in fiscal 2003. This gain was a result of the settlement of a contingent note and the value and payment was based upon certain elements of the future performance of the Eight O'Clock Coffee business and was not originally recorded in the gain during fiscal 2003.

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued



## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

### LIQUIDITY AND CAPITAL RESOURCES

#### CASH FLOWS

The following table presents excerpts from our Consolidated Statement of Cash Flows (in thousands):

	28 weeks ended
	Sept. 12, 2009
Net cash provided by (used in) operating activities	\$ 20,537
Net cash used in investing activities	\$ (38,334)
Net cash provided by financing activities	\$ 190,216

Net cash provided by operating activities of \$20.5 million for the 28 weeks ended September 12, 2009 primarily reflected our net loss of \$145.5 million, adjusted for net non-cash net charges of \$208.1 million. In addition, cash provided by operating activities reflected (i) an increase in accounts payable of \$60.1 million and (ii) a decrease in accounts receivable of \$21.5 million, partially offset by (iii) a decrease in other non-current liabilities of \$46.3 million, (iv) an increase in prepaid expense and other current assets of \$19.4 million, (v) an increase in inventories of \$17.2 million, (vi) a decrease in accrued salaries, wages, benefits and taxes of \$14.3 million and (vii) an increase in other assets of \$15.6 million. Refer to Working Capital below for discussion of changes in working capital items. Net cash used in operating activities of \$30.8 million for the 28 weeks ended September 6, 2008 primarily reflected our net loss of \$16.8 million, adjusted for non-cash charges of \$83.8 million. Further, cash was provided by an increase in accounts payable of \$50.3 million mainly due to the timing of payments partially offset by an increase in inventories of \$22.7 million, an increase in prepaid expenses and other current assets of \$18.8 million, an increase in other assets of \$13.7 million, a decrease in accrued salaries, wages and benefits, and taxes of \$22.2 million, a decrease in other non-current liabilities of \$51.0 million primarily due to payments on closed locations.

Net cash used in investing activities of \$38.3 million for the 28 weeks ended September 12, 2009 primarily reflected property expenditures totaling \$50.0 million, which included 4 additions, 5 remodels and 4 conversions, partially offset by proceeds from the sale of our joint venture of \$5.9 million, proceeds from disposal of property of \$3.3 million and proceeds from maturities of restricted marketable securities of \$2.2 million. For the remainder of fiscal 2009, we plan to focus our capital expenditures on enlarging and remodeling supermarkets and converting supermarkets to more optimal formats. Net cash used in investing activities of \$45.2 million for the 28 weeks ended September 6, 2008 primarily reflected property expenditures totaling \$59.4 million, which included 2 new liquor stores, 3 major remodels, 1 major enlargement, 4 Pathmark Price Impact remodels and 3 Starbucks remodels partially offset by proceeds from disposal of property of \$6.1 million and proceeds from maturities of restricted marketable securities of \$7.1 million.

Net cash provided by financing activities of \$190.2 million for the 28 weeks

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

ended September 12, 2009 primarily reflected proceeds from issuance of long-term debt of \$253.2 million, proceeds from issuance of preferred stock of \$175.0 million, partially offset by net principal payments on our revolving lines of credit of \$198.9 million and deferred financing fees of \$22.6 million. Net cash provided by financing activities of \$106.4 million for the 28 weeks ended September 6, 2008 primarily reflected net proceeds under our revolving lines of credit of \$108.0 million, proceeds from a promissory note of \$10.0 million, an increase in book overdrafts of \$35.1 million, partially offset by the settlement of Series A warrants of \$45.7 million.

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

We operate under an annual operating plan which is reviewed and approved by our Board of Directors and incorporates the specific operating initiatives we expect to pursue and the anticipated financial results of our Company. Our plan for fiscal 2009 has been approved and we believe that our present cash resources, including additional liquidity provided by the proceeds from the August 2009 preferred stock investment and the Senior Secured Notes Financing, available borrowings from our Credit Agreement and other sources, are sufficient to meet our needs for the next twelve months.

Profitability, cash flow, asset sale proceeds and timing can be impacted by certain external factors such as unfavorable economic conditions, competition, labor relations and fuel and utility costs which could have a significant impact on cash generation. If our profitability and cash flow do not improve in line with our plans or if they do not otherwise provide sufficient resources to operate effectively, we anticipate that we would be able to modify the operating plan, by reducing capital investments and through other contingency actions. However, there is no assurance that we will be successful in generating such resources.

### WORKING CAPITAL

-----  
We had working capital of \$324.1 million at September 12, 2009, compared to working capital of \$172.0 million at February 28, 2009. We had cash and cash equivalents aggregating \$347.8 million at September 12, 2009, compared to \$175.4 million at February 28, 2009. The increase in working capital was primarily attributable to the following:

- o An increase in cash and cash equivalents, as detailed in our Consolidated Statements of Cash Flows, primarily attributable to our August 4, 2009 issuance of Redeemable Preferred Stock and Senior Secured Notes, which are described below, partially offset by repayments of a portion of our variable debt
- o An increase in inventories due to seasonality
- o An increase in prepaid expenses and other current assets, primarily due to an increase in prepaid rent due to the timing of payments

Partially offset by the following:

- o An increase in accounts payable, net of book overdrafts due to an increase in inventories and the timing of payments
- o A decrease in accounts receivable, primarily related to timing

### REDEEMABLE PREFERRED STOCK

-----  
On August 4, 2009, our Company consummated the issuance and sale of 60,000 shares of 8.0% Cumulative Convertible Preferred Stock, Series A-T, without par value, to affiliates of Tengelmann Warenhandels-gesellschaft KG ("Tengelmann") and 115,000 shares of 8.0% Cumulative Convertible Preferred Stock, Series A-Y,

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

without par value, to affiliates of Yucaipa Companies LLC ("Yucaipa"), together referred to as the "Preferred Stock," for approximately \$162.2 million, after deducting approximately \$12.8 million in closing and issuance costs. Each share of the Preferred Stock has an initial liquidation preference of one thousand dollars, subject to adjustment.

The Preferred Stock is convertible into shares of our Company's common stock, par value \$1.00 per share (the "Common Stock"), at an initial conversion price of \$5.00 per share of Common Stock. The Preferred Stock is convertible upon the one-year anniversary of the issuance of Preferred Stock provided that prior to

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

receiving shareholder approval, the Preferred Stock will not be exercisable into greater than 19.99% of the Common Stock outstanding prior to the issuance of the Preferred Stock. The currently convertible shares are recorded within temporary stockholders' equity since the shares are (i) redeemable at the option of the holder and (ii) have conditions for redemption which are not solely within the control of the Company. The shares requiring shareholder approval to become convertible are classified as a "Preferred stock liability".

Our Company is required to redeem all of the outstanding Preferred Stock on August 1, 2016 (the "Maturity Date"), at 100.0% of the liquidation preference, plus all accrued and unpaid dividends. Subject to the repurchase rights of the investors, the Preferred Stock is not redeemable prior to the Maturity Date.

The holders of the Preferred Stock are entitled to an 8.0% dividend, payable quarterly in arrears in cash or additional shares of Preferred Stock, if our Company is not able to pay the dividends fully in cash. If our Company makes a dividend payment in additional shares of Preferred Stock, the Preferred Stock shall be valued at the liquidation preference of the Preferred Stock and the dividend rate will be 8.0% plus 1.5%. During the 12 weeks ended September 12, 2009, we accrued Preferred Stock dividends of \$1.6 million, \$1.1 million of which has been recorded within "Interest expense" and \$0.5 million recorded within "Additional paid-in capital". In addition, during the 12 weeks ended September 12, 2009, we recorded \$0.2 million of deferred financing fees amortization, \$0.1 million of which was recorded within "Interest expense" and \$0.1 million recorded within "Additional paid-in capital".

The shares classified within temporary equity contained an embedded beneficial conversion feature as the fair value of the Company's common stock on the date of issuance, \$5.67 per share, was in excess of the effective conversion price of \$4.74 per share, which represents the \$5.00 per share conversion price reduced for fees paid to the investors. This embedded beneficial conversion feature resulted in a discount of \$10.8 million, which has been recorded within "Additional paid-in capital" and will be amortized over a seven-year period from the date of issuance until the stated redemption date. During the 12 weeks ended September 12, 2009, we accreted \$0.2 million relating to the beneficial conversion feature through "Additional paid-in capital".

### LINE OF CREDIT

-----  
On January 16, 2008, we entered into a secured line of credit agreement with Blue Ridge Investments, L.L.C. This agreement enables us to borrow funds on a revolving basis of up to \$32.7 million, or up to the value of the investment in the Columbia Fund. Each borrowing bears interest at a rate per annum equal to the BBA Libor Daily Floating Rate plus 0.10%. Our weighted-average interest rates on this line of credit were 0.4% and 2.6% during the second quarter of fiscal 2009 and 2008, respectively. At September 12, 2009 and February 28, 2009, we had borrowings outstanding under this line of credit agreement of \$3.2

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

million and \$5.0 million, respectively. This agreement had an original expiration of December 31, 2008. However, on November 26, 2008, this agreement was extended to expire on December 31, 2009. These loans are collateralized by a first priority perfected security interest in our ownership interest in the Columbia Fund. Refer to Note 3 to our Consolidated Financial Statements - Cash, Cash Equivalents, Restricted Cash and Restricted Marketable Securities, for further discussion on the Columbia Fund.

### CREDIT AGREEMENT

-----  
On December 3, 2007, we entered into a new \$675.0 million Credit Agreement with Banc of America Securities LLC and Bank of America, N.A., as the co-lead arranger. On December 27, 2007, in order to facilitate the syndication of the Credit Agreement under current market conditions, we entered into an Amended and Restated Credit Agreement, whereby a portion of the revolving commitments was converted

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

into a \$50.0 million term loan tranche, which was collateralized by certain real estate assets at an increased margin rate. On July 23, 2009, our Company amended the Amended and Restated Credit Agreement in connection with the private offering of senior secured notes and the sale of preferred stock. The amended agreement increases the applicable margins on credit advances, reduces commitments by \$20.0 million, reduces the collateral advance and provides for certain other amendments. Subject to borrowing base requirements, the amended Credit Agreement provides for a five-year term loan of \$82.9 million, the previously issued five year term loan of \$50.0 million and a five-year revolving credit facility of \$522.1 million enabling us to borrow funds and issue letters of credit on a revolving basis. The Credit Agreement includes a \$100.0 million accordion feature, which provides us with the ability to increase commitments from \$655.0 million to \$755.0 million, subject to agreement of new and existing lenders. Our obligations under the Credit Agreement are secured by certain assets of our Company, including, but not limited to, inventory, certain accounts receivable, pharmacy scripts, owned real estate and certain Pathmark leaseholds. The Pathmark leaseholds are removed as eligible collateral throughout fiscal 2009, which resulted in a reduction in borrowing availability of \$25.0 million on March 1, 2009 and \$25.0 million on June 1, 2009 and will result in reductions of an additional \$23.0 million on December 1, 2009, for a total reduced borrowing availability of approximately \$73.0 million. Borrowings under the Credit Agreement bear interest based on LIBOR or Prime interest rate pricing. Subject to certain conditions, we are permitted to pay cumulative cash dividends on common shares, as well as make bond repurchases. This agreement expires in December 2012.

As of September 12, 2009, there were \$132.9 million of loans and \$199.6 million in letters of credit outstanding under this agreement. As of September 12, 2009, after reducing availability for borrowing base requirements, we had \$231.5 million available under the Credit Agreement. In addition, we have invested cash available to reduce borrowings under this Credit Agreement or to use for future operations of \$251.2 million as of September 12, 2009.

Based on information available to us, as of our filing date, we have no indication that the financial institutions acting as lenders under our Credit Agreement would be unable to fulfill their commitments.

### RELATED PARTY PROMISSORY NOTE

-----  
On September 2, 2008, our Company issued a three year, unsecured promissory note

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

in the amount of \$10 million to Erivan Karl Haub. Erivan Haub is the father of Christian W. E. Haub, our Executive Chairman, and is a limited partner of Tengelmann which owns an interest in our Company's stock. The principal is due in a lump sum payment on August 18, 2011 and bears interest at a rate of 6% per year, payable in twelve equal quarterly payments of \$0.15 million over the term of the note. During the 12 and 28 weeks ended September 12, 2009 we paid \$0.2 million and \$0.5 million, respectively, of interest on this note and we recorded interest expense of \$0.1 million and \$0.3 million, respectively.

### PUBLIC DEBT OBLIGATIONS

-----

As of September 12, 2009, we had outstanding notes of \$584.3 million, which consisted of \$12.8 million of 9.125% Senior Notes due December 15, 2011, \$151.8 million of 5.125% Convertible Senior Notes due June 15, 2011, \$219.7 million of 6.750% Convertible Senior Notes due December 15, 2012 and \$200.0 million of 9.375% Notes due August 1, 2039. Interest is payable quarterly on the 9.375% Notes and semi-annually on the 9.125%, 6.750% and 5.125% Notes. The 9.375% Notes are now callable at par (\$25 per bond) and the 9.125% Senior Notes are now callable at a premium to par (103.042%). The 9.375% Notes are unsecured obligations and were issued under the terms of our senior debt securities indenture, which

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis -Continued

contains among other provisions, covenants restricting the incurrence of secured debt. The 9.375% Notes are effectively subordinated to the Credit Agreement and do not contain cross default provisions. All covenants and restrictions for the 9.125% Senior Notes were eliminated in connection with the cash tender offer in fiscal 2005. Our notes are not guaranteed by any of our subsidiaries.

On December 18, 2007, we completed a public offering and issued \$165 million 5.125% Convertible Senior Notes due 2011 and \$255 million 6.750% Convertible Senior Notes due 2012. The 5.125% Notes are not redeemable at our option at any time. The 6.750% Notes are redeemable at our option on or after December 15, 2010, at a redemption price of 102.70% and on or after December 15, 2011, at a redemption price of 101.35%. The initial conversion price of the 5.125% Notes is \$36.40, representing a 30.0% premium to the offering price of \$28.00 and the initial conversion price of the 6.750% Notes is \$37.80, representing a 35.0% premium to the offering price of \$28.00 at maturity, and at our option, the notes are convertible into shares of our stock, cash, or a combination of stock and cash.

As of December 18, 2007, our Company did not have sufficient authorized shares to provide for all potential issuances of common stock. Therefore, our Company accounted for the conversion features as freestanding instruments. The convertible senior notes were recorded with a discount equal to the value of the conversion features at the transaction date and will be accreted to the par value of the notes over the life of the notes. The value of the conversion features were determined utilizing the Black-Scholes option pricing model and recorded as a long-term liability. The portion of the conversion features for which there was not shares available for settlement of conversions were marked to market each balance sheet date. On June 26, 2008, at a special meeting of stockholders, the number of shares of common stock we have the authority to issue was increased to 160,000,000, based on a majority vote by our stockholders. During the 12 and 28 weeks ended September 6, 2008, we recorded a loss of \$1.7 million and a gain of \$9.4 million, respectively, in "Nonoperating income" on our Consolidated Statements of Operations for the conversion features of the 5.125% convertible senior notes. During the 12 and 28 weeks ended September 6, 2008, the gain that was recorded in "Nonoperating income" in our

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Consolidated Statement of Operations for the conversion features of the 6.750% convertible senior notes was nil and \$5.1 million, respectively. Based on an increase in available shares primarily due to the settlement of our Series A warrants during the first quarter of fiscal 2008 and the increase in authorized shares during the second quarter of fiscal 2008, the fair value of the conversion features of the 5.125% and 6.750% convertible senior notes of \$13.8 million and \$14.7 million, respectively, was reclassified to "Additional paid-in-capital" on our Consolidated Statements of Stockholder's Equity and Comprehensive (Loss) Income as of June 26, 2008.

The \$255.0 million aggregate principal amount of the 6.750% Convertible Senior Notes due 2012 is subject to the provisions of FASB Staff Position ("FSP") Accounting Principles Board ("APB") Opinion No. 14-1 ("FSP APB 14-1"), "Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion." ("FSP APB 14-1"), which we adopted during our first quarter ended June 20, 2009. We estimate that our effective interest rate for similar debt without the conversion feature is approximately 12%. During the 12 weeks ended September 12, 2009 and September 6, 2008, we recognized additional non-cash interest expense of \$1.0 million and \$0.7 million, respectively, relating to our adoption of FSP APB 14-1. During the 28 weeks ended September 12, 2009 and September 6, 2008, we recognized additional non-cash interest expense of \$2.2 million and \$1.7 million, respectively, relating to our adoption of FSP APB 14-1. The net carrying value of outstanding debt as of September 12, 2009 and February 28, 2009 was \$219.7 million and \$215.1 million, respectively, net of unamortized discount of \$35.3 million and

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

\$39.9 million, respectively. As of September 12, 2009, our remaining unamortized discount will be recognized as follows (in thousands):

Remainder of 2009	\$	4,187
2010		9,884
2011		11,139
2012		10,140
		-----
	\$	35,350
		=====

### SENIOR SECURED NOTES

-----  
On August 4, 2009, we completed a \$260.0 million offering of 11.375% senior secured notes due 2015 (the "Notes") at a price equal to 97.385% of their face value. The Notes represent second lien secured obligations, guaranteed by all of our Company's domestic subsidiaries. The Notes bear interest at a fixed rate of 11.375% payable semi-annually in cash. The proceeds from this offering and our preferred stock offering on August 4, 2009, which is discussed above, were used to repay a portion of our existing variable debt.

The Notes were offered only to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and outside the United States, only to non-U.S. investors pursuant to Regulation S. The Notes have not been registered under the Securities Act or the securities laws of any other jurisdiction and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The Notes contain the usual and customary covenants found in

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

secured notes, including, among other things, restrictions on the incurrence of additional indebtedness, asset sales, liens and restricted payments.

### CALL OPTION AND FINANCING WARRANTS

Concurrent with the issuance of the convertible senior notes, our Company issued financing warrants in conjunction with the call options recorded as equity in the Consolidated Balance Sheet to effectively increase the conversion price of these notes and reduce the potential dilution upon future conversion. The financing warrants allow holders to purchase common shares at \$46.20 with respect to the 5.125% Notes and \$49.00 with respect to the 6.750% Notes. The financing warrants were valued at \$36.8 million at the issuance date. At the issuance date, we did not have sufficient authorized shares to provide for all potential issuances of common stock. Therefore, the financing warrants were accounted for as freestanding derivatives, required to be settled in cash until sufficient shares are available and are recorded as a long-term liability in the Consolidated Balance Sheet. On June 26, 2008, at a special meeting of stockholders, the number of shares of common stock we have the authority to issue was increased to 160,000,000 based on a majority vote by our stockholders. Thus, the financing warrants were marked to market through June 26, 2008 utilizing the Black-Scholes option pricing model. These financing warrants are no longer classified as a liability as of June 26, 2008. During the 12 and 28 weeks ended September 6, 2008, we recorded a loss of \$4.2 million and a gain of \$2.3 million, respectively, relating to these warrants, which was included in "Nonoperating income" on our Consolidated Statements of Operations.

We understand that on or about October 3, 2008, Lehman Brothers OTC Derivatives, Inc. or "LBOTC" who accounts for 50% of the call option and financing warrant transactions filed for bankruptcy protection, which is an event of default under such transactions. We are carefully monitoring the developments affecting LBOTC, noting the impact of the LBOTC bankruptcy effectively reduced conversion prices for 50% of our convertible senior notes to their stated prices of \$36.40 for the 5.125% Notes and \$37.80 for the

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

6.750% Notes. In the event we terminate these transactions, or they are canceled in bankruptcy, or LBOTC otherwise fails to perform its obligations under such transactions, we would have the right to monetary damages in the form of an unsecured claim against LBOTC in an amount equal to the present value of our cost to replace these transactions with another party for the same period and on the same terms.

### SERIES A AND SERIES B WARRANTS

As part of the acquisition of Pathmark on December 3, 2007, we issued 4,657,378 and 6,965,858 roll-over stock warrants in exchange for Pathmark's 2005 Series A and Series B warrants, respectively. The Series A warrants were exercised on May 7, 2008 at a price of \$18.36; the Series B warrants are exercisable at \$32.40 and expire on June 9, 2015. The Tengemann stockholders have the right to approve any issuance of common stock under these warrants upon exercise (assuming Tengemann's outstanding interest is at least 25% and subject to liquidity impairments defined within the Tengemann Stockholder Agreement). In addition, Tengemann has the ability to exercise a "Put Right" whereby it has the ability to require A&P to purchase A&P stock held by Tengemann to settle these warrants. Based on the rights provided to Tengemann, A&P does not have sole discretion to determine whether the payment upon exercise of these warrants will be settled in cash or through issuance of an equivalent portion of A&P shares. Therefore, these warrants are recorded as liabilities and

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

marked-to-market each reporting period based on A&P's current stock price.

On May 7, 2008, the 4,657,378 Series A warrants were exercised by Yucaipa Corporate Initiatives Fund I, L.P., Yucaipa American Alliance Fund I, L.P. and Yucaipa American Alliance (Parallel) Fund I, L.P. We opted to settle the Series A warrants in cash totaling \$45.7 million rather than issuing additional common shares. Included in "Nonoperating income" on our Consolidated Statements of Operations for the 12 and 28 weeks ended September 6, 2008, is a loss of nil and \$1.2 million, respectively, for the Series A warrants through the settlement date of May 7, 2008 and a gain of \$48.8 million and \$76.0 million, respectively, for Series B warrants market value adjustments. "Nonoperating income" for the 12 and 28 weeks ended September 12, 2009 includes a loss of \$7.1 million and \$9.0 million, respectively, relating to market value adjustments for Series B warrants. The value of the Series B warrants as of September 12, 2009 and February 28, 2009 was \$13.7 million and \$4.8 million, respectively, and is included in "Other financial liabilities" on our Consolidated Balance Sheets. The following assumptions and estimates were used in the Black-Scholes model for the Series B warrants:

	Sept. 12, 2009 -----	February 28, 2009 -----
Expected life	5.74 years	6.28 years
Volatility	65.6%	61.3%
Dividend yield range	0%	0%
Risk-free interest rate	2.29%	2.69%

### SHARE LENDING AGREEMENTS

-----

We entered into share lending agreements, dated December 12, 2007, with certain financial institutions, under which we agreed to loan up to 11,278,988 shares of our common stock (subject to certain adjustments set forth in the share lending agreements). These borrowed shares must be returned to us no later than December 15, 2012 or sooner if certain conditions are met. If an event of default should occur under the share lending agreement and a legal obstacle exists that prevents the borrower from returning the shares, the borrower shall, upon written request of our Company, pay our Company, using available funds, in lieu of the delivery of loaned shares, to settle its obligation. On June 26, 2008, our stockholders approved a loan of up to an additional 1,577,569 shares of our Company's common stock pursuant to the share lending agreement.

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

These financial institutions will sell the "borrowed shares" to investors to facilitate hedging transactions relating to the issuance of our 5.125% and 6.750% Senior Convertible Notes. Pursuant to these agreements, we loaned 8,134,002 shares of our stock of which 6,300,752 shares were sold to the public on December 18, 2007 in a public offering. We did not receive any proceeds from the sale of the borrowed shares. We received a nominal lending fee from the financial institutions pursuant to the share lending agreements.

Any shares we loan are considered issued and outstanding. Investors that purchase borrowed shares are entitled to the same voting and dividend rights as any other holders of our common stock; however, the financial institutions will not have such rights pursuant to the share lending agreements. The obligation of the financial institutions to return the borrowed shares has been accounted for



## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

as a prepaid forward contract and, accordingly, shares underlying this contract, except as described below, are removed from the computation of basic and dilutive earnings per share. On a net basis, this transaction will have no impact on earnings per share, with the exception of the below.

On September 15, 2008, Lehman and certain of its subsidiaries, including, Lehman Europe filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court and/or commenced equivalent proceedings in jurisdictions outside of the United States (collectively, the "Lehman Bankruptcy"). Lehman Europe is party to a 3,206,058 share lending agreement with our Company. Due to the circumstances of the Lehman Bankruptcy, we have recorded these loaned shares as issued and outstanding effective September 15, 2008, for purposes of computing and reporting our Company's basic and diluted weighted average shares and earnings per share.

### OTHER

-----

In the normal course of business, we have assigned to third parties various leases related to former operating stores (the "Assigned Leases") for which we generally remained secondarily liable. As such, if any of the assignees were to become unable to make payments under the Assigned Leases, we could be required to assume the lease obligation. As of September 12, 2009, 196 Assigned Leases remain in place. Assuming that each respective assignee became unable to make payments under an Assigned Lease, an event we believe to be remote, we estimate our maximum potential obligation with respect to the Assigned Leases to be approximately \$608.7 million, which could be partially or totally offset by reassigning or subletting these leases.

Our existing corporate rating with Moody's Investors Service ("Moody's") is B3 with a negative outlook. Our senior unsecured debt is rated Caal, our senior secured notes are rated B3 and our liquidity rating is SGL-3.

Our corporate credit rating with Standard & Poor's Ratings Group ("S&P") is B- with a stable outlook. Our senior unsecured debt is rated CCC, and our recovery rating is 6, indicating that lenders can expect a negligible (0%-10%) recovery in the event of a payment default. Our senior secured notes are rated B-, with a recovery rating of 4, indicating that lenders can expect an average recovery (30%-50%) in the event of a payment default. Our preferred stock rating is CCC-.

Future rating changes could affect the availability and cost of financing to our Company.

The Great Atlantic & Pacific Tea Company, Inc.  
Management's Discussion and Analysis - Continued

### CRITICAL ACCOUNTING ESTIMATES

-----

Critical accounting estimates are those accounting estimates that we believe are important to the portrayal of our financial condition and results of operations and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A summary of our critical accounting policies may be found in the Management Discussion and Analysis included in our Annual Report on Form 10-K for the year

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

ended February 28, 2009. There have been no significant changes in these policies during the 28 weeks ended September 12, 2009.

### CAUTIONARY NOTE

-----  
This Form 10-Q may contain forward-looking statements about the future performance of our Company, and is based on our assumptions and beliefs in light of information currently available. We assume no obligation to update this information. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements, including, but not limited to: various operating factors and general economic conditions, competitive practices and pricing in the food industry generally and particularly in our principal geographic markets; our relationships with our employees; the terms of future collective bargaining agreements; the costs and other effects of lawsuits and administrative proceedings; the nature and extent of continued consolidation in the food industry; changes in the capital markets which may affect our cost of capital or the ability to access capital; supply or quality control problems with our vendors; regulatory compliance; and changes in economic conditions, which may affect the buying patterns of our customers. Refer to PART II. ITEM 1A - Risk Factors included in this quarterly report on Form 10-Q.

### ITEM 3 - Quantitative and Qualitative Disclosures About Market Risk

#### MARKET RISK

-----  
Market risk represents the risk of loss from adverse market changes that may impact our consolidated financial position, results of operations or cash flows. Among other possible market risks, we are exposed to interest rate risk. From time to time, we may enter hedging agreements in order to manage risks incurred in the normal course of business.

#### Interest Rates

-----  
Our exposure to market risk for changes in interest rates relates primarily to our debt obligations. As of September 12, 2009, we do not have cash flow exposure due to rate changes on any of our debt securities with an aggregate book value of \$849.7 million, because they are at fixed interest rates ranging from 2.0% to 11.375%. However, we do have cash flow exposure on our committed and uncommitted lines of credit of \$136.1 million due to our variable floating rate pricing. Accordingly, during the 12 weeks and 28 weeks ended September 12, 2009, a presumed 1% change in the variable floating rate would have impacted interest expense by \$0.5 million and \$1.5 million, respectively. A presumed 1% change in the variable floating rate during the 12 and 28 weeks ended September 6, 2008 would have impacted interest expense by \$0.7 million and \$1.3 million, respectively.

#### Foreign Exchange Risk

-----  
As of September 12, 2009, we did not have exposure to foreign exchange risk as we did not hold any significant assets denominated in foreign currency.

### ITEM 4 - Controls and Procedures

We have established and maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

is accumulated and communicated to our Company's management, including our President and Chief Executive Officer and Senior Vice President, Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our Company's management, including our Company's President and Chief Executive Officer along with our Company's Senior Vice President, Chief Financial Officer, of the effectiveness of the design and operation of our Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon the foregoing, our Company's President and Chief Executive Officer along with our Company's Senior Vice President, Chief Financial Officer, concluded that our Company's disclosure controls and procedures were effective as of the period covered by this report.

There have been no changes during our Company's fiscal quarter ended September 12, 2009 in our Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our Company's internal control over financial reporting.

### PART II. OTHER INFORMATION

#### ITEM 1 - Legal Proceedings

Refer to Note 20 - Commitments and Contingencies - Legal Proceedings in our Notes to Consolidated Financial Statements for a discussion of our legal proceedings.

#### ITEM 1A - Risk Factors

Various risk factors could have a negative effect on our Company's business, financial position, cash flows and results of operations. These risk factors include, among others, the following:

##### Risks Relating to Our Business

Various operating factors and general economic conditions affecting the food industry may affect our business and may adversely affect our operating results.

The retail food and food distribution industries and the operation of our business, specifically in the New York -- New Jersey and Philadelphia regions, are sensitive to a number of economic conditions and other factors such as:

- o food price deflation or inflation,
- o softness in local and national economies,
- o increases in commodity prices,
- o the availability of favorable credit and trade terms,
- o changes in business plans, operations, results and prospects,
- o potential delays in the development, construction or start-up of planned projects, and
- o other economic conditions that may affect consumer buying habits.

Any one or more of these economic conditions can affect our retail sales, the demand for products we distribute to our retail customers, our operating costs

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

and other aspects of our business. Failure to achieve sufficient levels of cash flow at reporting units could result in impairment charges on goodwill and/or long-lived assets.

Changes in the general business and economic conditions in our markets, including the rate of inflation, population growth, the rising prices of oil and gas, the nature and extent of continued consolidation in the food industry and employment and job growth in the markets in which we operate, may affect our ability to hire and train qualified employees to operate our stores. This would negatively affect earnings and sales growth. General economic changes may also affect the shopping habits and buying patterns of our customers, which could affect sales and earnings.

Our ability to achieve our profit goals will be affected by, among other things:

- o our success in executing category management and purchasing programs that we have underway, which are designed to improve our gross margins and reduce product costs while making our product selection more attractive to consumers,
- o our ability to achieve productivity improvements and reduce shrink in our stores,
- o our success in generating efficiencies in our supporting activities, and
- o our ability to eliminate or maintain a minimum level of supply and/or quality control problems with our vendors.

We face a high level of competition, including the threat of further consolidation in the food industry, which could adversely affect our sales and future profits.

The retail food business is extremely competitive and is characterized by high inventory turnover and narrow profit margins. The retail food business is subject to competitive practices that may affect:

- o the prices at which we are able to sell products at our retail locations,
- o sales volume, and
- o our ability to attract and retain customers.

In addition, the nature and extent of consolidation in the retail food industry could affect our competitive position in the markets we serve.

Our retail food business and the grocery retailing industry continue to experience aggressive competition from mass merchandisers, warehouse clubs, drug stores, convenience stores, discount merchandisers, dollar stores, restaurants, other retail chains, nontraditional competitors and emerging alternative formats in the markets where we have retail operations. Competition with these outlets is based on price, store location, advertising and promotion, product mix, quality and service. Some of these competitors may have greater financial resources, lower merchandise acquisition costs and lower operating expenses than we do, and we may be unable to compete successfully in the future. A decrease in the rate of inflation in food prices and increasingly competitive markets have made it difficult generally for grocery store operators to achieve comparable store sales gains. Because sales growth has been difficult to attain, our competitors have attempted to maintain market share through increased levels of

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

promotional activities and discount pricing, creating a more difficult environment in which to consistently increase year-over-year sales. Price-based competition has also, from time to time, adversely affected our operating margins. Competitors' greater financial strengths enable them to participate in aggressive pricing strategies such as selling inventory below costs to drive overall increased sales. Our continued success is dependent upon our ability to effectively compete in this industry and to reduce operating expenses, including managing health care and pension costs contained in our collective bargaining agreements. The competitive practices and pricing in the food industry generally and particularly in our principal markets may cause us to reduce our prices in order to gain or maintain our market share of sales, thus reducing margins.

Our in-store pharmacy business is also subject to intense competition. In particular, an adverse trend for drug retailing has been the significant growth in mail-order and internet-based prescription processors, including importation from Canada and other countries. Due to the rapid rise in drug costs experienced in recent years, mail-order prescription distribution methods are perceived by employers and insurers as being less costly than traditional distribution methods and are being mandated by an increasing number of third party pharmacy benefit managers, many of which also own and manage mail-order distribution operations. As a result, some labor unions and employers are requiring, and others may encourage, that their members or employees obtain medications from mail-order pharmacies which offer drug prescriptions at prices that are lower than we are able to offer. In addition to these forms of mail-order distribution, there has also been increasing competition from a number of internet-based prescription distributors, which specialize in offering certain high demand lifestyle drugs at deeply discounted prices, and importers from Canada and other foreign countries. These alternate distribution channels have acted to restrain the rate of sales growth for traditional chain drug retailers in the last few years. There can be no assurance that our efforts to offset the effects of alternate distribution channels and eligibility changes will be successful.

We are concentrated in the New York -- New Jersey and Philadelphia metropolitan areas and, as a result, our business is significantly influenced by the economic conditions and other characteristics of these areas.

We are vulnerable to economic downturns in the New York -- New Jersey and Philadelphia metropolitan areas, in addition to those that may affect the country as a whole, as well as other factors that may impact that region, such as the regulatory environment, the cost of real estate, insurance, taxes and rent, reliance on the financial industry, increasing unemployment, weather and natural catastrophes, demographics, the availability of labor, and geopolitical factors such as war and terrorism.

We cannot predict economic conditions in this region, and factors such as interest rates, energy costs and unemployment rates may adversely affect our sales which may lead to higher losses, and may also adversely affect our future growth and expansion. Any unforeseen events or circumstances that affect the area could also materially adversely affect our revenues and profitability. Further, since we are concentrated in densely populated metropolitan areas, opportunities for future store expansion may be limited, which may adversely affect our business and results of operations.

We rely on C&S for a substantial amount of our products.

Pursuant to the terms of a long-term supply agreement, which our Company entered into in conjunction with the sale of its distribution business and certain of its assets to C&S, we currently acquire a significant amount of our saleable inventory, including groceries and perishables, from one supplier, C&S. During

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

the twelve months ended February 28, 2009, products supplied from C&S accounted for over 69% of our Company's supermarket inventory purchases. Our agreement with C&S is for a term of ten years, during which we expect to acquire a substantial portion of our saleable inventory from C&S. Although we have not experienced difficulty in the supply of these products to date, supply interruptions by C&S could occur in the future. Any significant interruption in this supply stream, either as a result of disruptions at C&S or if our supply agreement with C&S were terminated for any reason, could have a material adverse effect on our business and results of operations. We are therefore subject to the risks of C&S's business, including potential labor disruptions at C&S facilities, increased regulatory obligations and distribution problems which may affect C&S's ability to obtain products. While we believe that other suppliers could provide similar products on reasonable terms, they are limited in number. In addition, a change in suppliers could cause a delay in distribution and a possible loss of sales, which would affect operating results adversely.

Our renovation and expansion plans may not be successful, and though we plan to convert the remaining conventional stores to one of our three new formats, we may not have the funds to do so.

A key to our business strategy has been, and will continue to be, the renovation and expansion of total selling square footage, including the continued transition of our existing conventional stores into one of our three new formats. We have reduced our planned capital expenditures for fiscal 2009, which relate primarily to opening new supermarkets under the optimal format based on local demographics, opening new liquor stores, and converting certain A&P conventional banner stores to the optimal format based on local demographics. Our capital expenditures could differ from our estimates if development and remodel costs vary from those budgeted, if performance varies significantly from expectations or if we are unsuccessful in acquiring suitable sites for new stores. We expect that cash flows from operations, supplemented by borrowing capacity under our credit facility and the availability of capital lease financing will be sufficient to fund our capital renovation and expansion programs; however, in the event that cash flows from operations decrease we may decide to limit our future capital expenditure program. In addition, the greater financial resources of some of our competitors for acquiring real estate sites could adversely affect our ability to open new stores. The inability to renovate our existing stores, add new stores or increase the selling area of existing stores could adversely affect our business, our results of operations and our ability to compete successfully.

We may be adversely affected by fluctuating utility and fuel costs.

Fluctuating fuel costs may adversely affect our operating costs since we incur the cost of fuel in connection with the transportation of goods from our warehouse and distribution facilities to our stores. In addition, operations at our stores are sensitive to rising utility fuel costs due to the amount of electricity and gas required to operate our stores. In the event of rising fuel costs, we may not be able to recover rising utility and fuel costs through increased prices charged to our customers. Oil prices directly affect our product transportation costs and fuel costs due to the amount of electricity and gas required to operate our stores as well as our utility and petroleum-based supply costs, including plastic bags.

Current economic conditions have been, and may continue to be volatile.

As a result of concern about the stability of the capital markets and the strength of counterparties, many financial institutions have reduced and, in some cases, ceased to provide funding to borrowers. Based on information

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

available to us, we have no indication that the financial institutions acting as lenders under our credit facility would be unable to fulfill their commitments. Continued turbulence in the global credit markets and U.S. economy may adversely affect our results of operations, financial condition and liquidity.

We have certain substantial equity holders that may support strategies that are opposed to your interests or with which you disagree.

Tengelmann, our Company's former majority stockholder, owns beneficially and of record a substantial percentage of our common stock on a fully diluted basis, which further increased upon issuance of convertible preferred stock. As a result of this equity ownership and our stockholder agreement with Tengelmann, Tengelmann has the power to significantly influence the results of stockholder votes and the election of our board of directors, as well as transactions involving a potential change of control of our Company. Tengelmann may support strategies and directions for our Company which are in its best interests but which are opposed to other stakeholders. So long as Tengelmann retains sufficient ownership

of our Company's voting power, Tengelmann has rights to board representation, as well as consent rights in connection with certain major Company actions including changes to Company policies and organizational documents, dispositions and financing activity.

Upon completion of the convertible preferred stock issuance, Yucaipa became a significant holder of our common stock on a fully diluted basis. According to the stockholder's agreement with Yucaipa, as long as Yucaipa retains sufficient ownership of our Company's voting power, Yucaipa has rights to board representation, as well as consent rights in connection with certain major Company actions including changes to Company policies and organizational documents, dispositions and financing activity. Yucaipa may support strategies and directions for our Company which are in its best interests but which are opposed to other stakeholders.

We could be affected if consumers lose confidence in the food supply chain or the quality and safety of our products.

We could be adversely affected if consumers lose confidence in the safety and quality of the food supply chain. Adverse publicity about these concerns, whether or not ultimately based on fact, and whether or not involving products sold at our stores, could discourage consumers from buying our products. The real or perceived sale of contaminated food products by us could result in a loss of consumer confidence and product liability claims, which could have a material adverse effect on our sales and operations.

To the extent that we are unable to maintain appropriate sanitation and quality standards in our stores, food safety and quality issues could involve expense and damage to our various brand names. Additionally, concerns about the safety or effectiveness of certain drugs or negative publicity surrounding certain categories of drugs may have a negative impact on our pharmacy sales.

Threats or potential threats to security of food and drug safety may adversely affect our business.

Acts or threats of war or terror or other criminal activity directed at the grocery or drug store industry, the transportation industry, or computer or communications systems, whether or not directly involving our stores, could increase our security costs, adversely affect our operations, or impact general consumer behavior and spending as well as customer orders and our supply chain.

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Other events that give rise to actual or potential food contamination, drug contamination, or food-borne illnesses could have an adverse effect on our operating results.

Various aspects of our business are subject to federal, state and local laws and regulations. Our compliance with these regulations may require additional expenditures and could adversely affect our ability to conduct our business as planned. Changes in these laws and regulations could increase our compliance costs.

We are subject to federal, state and local laws and regulations relating to zoning, land use, environmental protection, work place safety, public health, community right-to-know, beer and wine sales, pharmaceutical sales and gasoline station operations. A number of states and local jurisdictions regulate the licensing of supermarkets, including beer and wine license grants. In addition, under certain local regulations, we are prohibited from selling beer and wine in certain of our stores. Employers are also subject to laws governing their relationship with employees, including minimum wage requirements, overtime, working conditions, disabled access and work permit requirements. Compliance with these laws could reduce the revenue and profitability of our supermarkets and could otherwise adversely affect our business, financial condition or

results of operations. In addition, any changes in these law or regulations could significantly increase our compliance costs and adversely affect our results of operations, financial condition and liquidity.

A number of federal, state and local laws exist that impose burdens or restrictions on owners with respect to access by disabled persons. Our compliance with these laws may result in modifications to our properties, or prevent us from performing certain further renovations.

Our pharmacy business is subject to certain government laws and regulations, including those administered and enforced by Medicare, Medicaid, the Drug Enforcement Administration (DEA), Consumer Product Safety Commission, U.S. Federal Trade Commission and Food and Drug Administration. For example, the conversion of various prescription drugs to over-the-counter medications may reduce our pharmacy sales, and if the rate at which new prescription drugs become available slows or if new prescription drugs that are introduced into the market fail to achieve popularity, our pharmacy sales may be adversely affected. The withdrawal of certain drugs from the market may also adversely affect our pharmacy business. Changes in third party reimbursement levels for prescription drugs, including changes in Medicare Part D or state Medicaid programs, could also reduce our margins and have a material adverse effect on our business. In order to dispense controlled substances, we are required to register our pharmacies with the DEA and to comply with security, recordkeeping, inventory control and labeling standards.

In addition, our pharmacy business is subject to local regulations in the states where our pharmacies are located, applicable Medicare and Medicaid regulations and state and federal prohibitions against certain payments intended to induce referrals of patients or other health care business. Failure to properly adhere to these and other applicable regulations could result in the imposition of civil, administrative and criminal penalties including suspension of payments from government programs; loss of required government certifications; loss of authorizations to participate in, or exclusion from, government reimbursement programs such as Medicare and Medicaid; loss of licenses; significant fines or monetary penalties for anti-kickback law violations, submission of false claims or other failures to meet reimbursement program requirements and could adversely affect the continued operation of our business. Our pharmacy business is also



## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

subject to the Health Insurance Portability and Accountability Act, including its obligations to protect the confidentiality of certain patient information and other obligations. Failure to properly adhere to these requirements could result in the imposition of civil as well as criminal penalties.

Certain risks are inherent in providing pharmacy services, and our insurance may not be adequate to cover any claims against us.

Pharmacies are exposed to risks inherent in the packaging and distribution of pharmaceuticals and other healthcare products, such as risks of liability for products which cause harm to consumers. Although we maintain professional liability insurance and errors and omissions liability insurance, we cannot assure you that the coverage limits under our insurance programs will be adequate to protect us against future claims, or that we will be able to maintain this insurance on acceptable terms in the future. Our results of operations, financial condition or cash flows may be adversely affected if in the future our insurance coverage proves to be inadequate or unavailable, or there is an increase in liability for which we self-insure, or we suffer harm to our reputation as a result of an error or omission.

Litigation, legal or administrative proceedings and other claims could expose us to significant liabilities and thus negatively affect our financial results.

We are, from time to time, subject to various claims, administrative proceedings and litigation, which if determined adversely to us could negatively affect our financial results. We have estimated our exposure to claims, administrative proceedings and litigation and believe we have made adequate provisions for them, where appropriate. Unexpected outcomes in both the costs and effects of these matters could result in an adverse effect on our business and our results of operation and earnings.

We are affected by increasing labor, benefit and other operating costs and a competitive labor market and are subject to the risk of unionized labor disruptions.

The majority of our operating costs are attributed to labor costs and, therefore, our financial performance is greatly influenced by increasing wage and benefit costs, including pension and health care costs, a competitive labor market and the risk of labor disruption of our highly unionized workforce.

We have approximately 46,200 employees, of which approximately 69% are employed on a part-time basis. Over the last few years, increased benefit costs have caused our Company's labor costs to increase. We cannot assure you that our labor costs will not continue to increase, or that such increases can be recovered through increased prices charged to customers. Any significant failure to attract and retain qualified employees, to control our labor costs or to recover any increased labor costs through increased prices charged to customers could have a material adverse effect on our results of operations.

As of February 28, 2009, approximately 92% of our employees were represented by unions and covered by collective bargaining or similar agreements that are subject to periodic renegotiations. Although we believe that we will successfully negotiate new collective bargaining agreements when our agreements expire, these negotiations may not prove successful, may result in a significant increase in the cost of labor or may result in the disruption of our operations.

We are currently negotiating or will negotiate ten labor agreements covering approximately 4,300 employees in fiscal 2009. In each of these negotiations, rising health care and pension costs will be important issues, as will the nature and structure of work rules. The actual terms of the renegotiated

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

collective bargaining agreements and/or a prolonged work stoppage affecting a substantial number of stores could have a material adverse effect on our results. We cannot assure you that our labor negotiations will conclude successfully or that any work stoppage or labor disturbances will not occur. We expect that we will incur additional costs and face increased competition for customers during any work stoppages or labor disturbances, which would adversely affect operating results.

We participate in various multi-employer pension plans for substantially all employees represented by unions.

We will be required to make contributions to these multi-employer pension plans in amounts established under collective bargaining agreements. Pension expenses for these plans, which are recognized as contributions, are currently funded. Benefits generally are based on a fixed amount for each year of service. We contributed \$48.2 million, \$34.4 million and \$32.1 million to multi-employer pension plans in fiscal 2008, fiscal 2007 and fiscal 2006, respectively. We could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans, which benefits could be significant and material for us. To date, we have not established any liabilities for future

withdrawals because such withdrawals from these plans are not probable and the amount cannot be estimated. As a result, we expect that contributions to these plans may increase. Additionally, the benefit levels and related items will be issues in the negotiation of our collective bargaining agreements. Under current law, an employer that withdraws or partially withdraws from a multi-employer pension plan may incur withdrawal liability to the plan, which represents the portion of the plan's underfunding that is allocable to the withdrawing employer under complex actuarial and allocation rules. The amount of any increase or decrease in our required contributions to these multi-employer pension plans will depend upon the outcome of collective bargaining, actions taken by trustees who manage the plans affecting the costs of future service benefits, government regulations and the actual return on assets held in the plans, among other factors.

We face the risk of being held liable for environmental damages that have or may occur.

Our operations subject us to various laws and regulations relating to the protection of the environment, including those governing the management and disposal of hazardous materials and the cleanup of contaminated sites. Under some environmental laws, such as the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, also known as CERCLA or the Superfund law, and similar state statutes, responsibility for the entire cost of cleanup of a contaminated site can be imposed upon any current or former site owners or operators, or upon any party who sent waste to the site, regardless of the lawfulness of the original activities that led to the contamination. From time to time we have been named as one of many potentially responsible parties at Superfund sites, although our share of liability has typically been de minimis. Although we believe that we are currently in substantial compliance with applicable environmental requirements, future developments such as more aggressive enforcement policies, new laws or discoveries of unknown conditions may require expenditures that may have a material adverse effect on our business and financial condition.

If any of the assignees under our operating leases were to become unable to continue making payments under the assigned leases we could be required to assume the lease obligation.

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

We are the primary obligor for a significant number of long-term leases related to closed stores and warehouses. When possible, we have assigned these leases to third parties (the "Assigned Leases"). However, our ability to sublease or assign these leases depends on the economic conditions in the real estate markets in which these leases are located. When the Assigned Leases were assigned, we generally remained secondarily liable with respect to these lease obligations. As such, if any of the assignees were to become unable to continue making payments under our Assigned Leases, we could be required to assume the lease obligation. As of September 12, 2009, 196 of our Assigned Leases remained in place. Assuming that each respective assignee became unable to continue to make payments under an Assigned Lease, an event we believe to be unlikely, we estimate our maximum potential obligation with respect to the Assigned Leases to be approximately \$608.7 million as of September 12, 2009, an amount which could be partially or totally offset by reassigning or subletting such leases. In the event the assignees do not make payments under any or all of the Assigned Leases, we could be required to assume any or all of the lease obligations, which could materially adversely affect our financial condition or results of operations.

The loss of key personnel could negatively affect our business.

We are dependent upon a number of key personnel and members of management. If we were to lose the services of a significant number of key personnel or management within a short period of time, this could have a material adverse effect on our operations. We do not maintain key person insurance on any personnel

or management. Our continued success is also dependent upon our ability to attract and retain qualified personnel to meet our future growth needs. We face intense competition for qualified personnel, many of whom are subject to offers from competing employers. We may not be able to attract and retain necessary team members to operate our business.

Any difficulties we experience with respect to our information technology systems could lead to significant costs or losses.

We have large, complex information technology systems that are important to our business operations. We could encounter difficulties developing new systems or maintaining and upgrading existing systems. Such difficulties could lead to significant expenses or losses due to disruption in our business operations.

Despite our considerable efforts to secure and maintain our computer network, security could be compromised, confidential information could be misappropriated, or system disruptions could occur. This could lead to disruption of operations, loss of sales or profits or cause us to incur significant costs to reimburse third parties for damages.

We may make acquisitions and consequently face integration, management diversion and other risks.

We may pursue acquisitions in the future. Any future acquisitions could be of significant size and may involve either domestic or international parties. To acquire and integrate a separate organization would divert management attention from other business activities. This diversion, together with the difficulties we may encounter in integrating an acquired business, could have a material adverse effect on our business, financial conditions or results of operations. Moreover, we may not realize any of the anticipated benefits of an acquisition and integration costs may exceed anticipated amounts. In connection with future acquisitions, we may also assume the liabilities of the businesses we acquire. These liabilities could materially and adversely affect our business and

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

financial condition.

Our substantial indebtedness could impair our financial condition and our ability to fulfill our debt obligations, including our obligations under the notes.

We have substantial indebtedness. Our indebtedness could have important consequences to you. For example, it could:

- o make it more difficult for us to satisfy our obligations with respect to the notes and our other indebtedness, which could in turn result in an event of default on the notes or such other indebtedness,
- o require us to dedicate a substantial portion of our cash flow from operations to debt service payments, thereby reducing the availability of cash for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes,
- o impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes,
- o diminish our ability to withstand a downturn in our business, the industry in which we operate or the economy generally,
- o limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, and
- o place us at a competitive disadvantage compared to certain competitors that have proportionately less debt.

If we are unable to meet our debt service obligations, we could be forced to restructure or refinance our indebtedness, seek additional equity capital or sell assets. We may be unable to obtain financing or sell assets on satisfactory terms, or at all.

In addition, at September 12, 2009, we had \$136.1 million of variable rate debt. If market interest rates increase, such variable-rate debt will have higher debt service requirements, which could adversely affect our cash flow. While we may enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

Provisions in our amended and restated articles of incorporation permit our board of directors to issue preferred stock without first obtaining stockholder approval which could be dilutive to common stockholders and affect the price of our common stock.

Our amended and restated articles of incorporation permit our board of directors to issue preferred stock without first obtaining stockholder approval. If we issued preferred stock, these additional securities may have dividend or liquidation preferences senior to our common stock. If we issued convertible preferred shares, a subsequent conversion may dilute the current common stockholders' interest. Issuance of such preferred stock could adversely affect the price of our common stock.

### ITEM 2 - Unregistered Sales of Equity Securities and Use of Proceeds

An unregistered sale of 8.0% Cumulative Convertible Preferred Stock was made on August 4, 2009 to Tengemann and Yucaipa, as more fully disclosed in a Current

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

Report on Form 8-K filed on August 5, 2009. The net proceeds from this sale were used to repay a portion of the Company's variable debt and are further anticipated to be used for working capital and other general corporate purposes.

### ITEM 3 - Defaults Upon Senior Securities

None

### ITEM 4 - Submission of Matters to a Vote of Security Holders

None

### ITEM 5 - Other Information

None

### ITEM 6 - Exhibits

#### (a) Exhibits required by Item 601 of Regulation S-K

EXHIBIT NO. -----	DESCRIPTION -----
3.1	By-Laws of The Great Atlantic & Pacific Tea Company, Inc. as Amended and Restated on August 4, 2009 (incorporated by reference to Item 9.01 of Form 8-K filed on August 5, 2009) (File No. 1-4141)
4.1	Articles Supplementary of 8% Cumulative Convertible Preferred Stock Series A-T, A-Y, B-T and B-Y of The Great Atlantic & Pacific Tea Company, Inc. (incorporated by reference to Item 9.01 of Form 8-K filed on August 5, 2009) (File No. 1-4141)
4.2	Form of 8% Cumulative Convertible Preferred Stock Certificate (included in Exhibit 4.1) (incorporated by reference to Item 9.01 of Form 8-K filed on August 5, 2009) (File No. 1-4141)
4.3	Indenture, dated as of August 4, 2009, among The Great Atlantic & Pacific Tea Company, Inc., the guarantors named therein and Wilmington Trust Company, as trustee (incorporated by reference to Item 9.01 of Form 8-K filed on August 5, 2009) (File No. 1-4141)
4.4	Form of 11 3/8% Senior Secured Notes due 2015 (included in Exhibit 4.3) (incorporated by reference to Item 9.01 of Form 8-K filed on August 5, 2009) (File No. 1-4141)
10.1	Amended and Restated Tengemann Stockholder Agreement, dated as of August 4, 2009, by and among The Great Atlantic & Pacific Tea Company, Inc. and Tengemann Warenhandelsgesellschaft KG (incorporated by reference to Item 9.01 of Form 8-K filed on August 5, 2009) (File No. 1-4141)

## Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

- 10.2 Amended and Restated Yucaipa Stockholder Agreement, dated as of August 4, 2009, by and among The Great Atlantic & Pacific Tea Company, Inc., Yucaipa American Alliance Fund II, LP, Yucaipa American Alliance (Parallel) Fund II, LP, Yucaipa Corporate Initiatives Fund I, LP, Yucaipa American Alliance Fund I, LP and Yucaipa American Alliance (Parallel) Fund I, LP (collectively, the "Stockholders") and Yucaipa American Alliance Fund II, LLC, as Stockholder Representative (incorporated by reference to Item 9.01 of Form 8-K filed on August 5, 2009) (File No. 1-4141)
- 10.3 Registration Rights Agreement, dated as of August 4, 2009, among The Great Atlantic & Pacific Tea Company, Inc., the guarantors named therein and Banc of America Securities LLC (incorporated by reference to Item 9.01 of Form 8-K filed on August 5, 2009) (File No. 1-4141)
- 10.4 Intercreditor Agreement, dated as of August 4, 2009, among Bank of America, N.A., as First Lien Agent, Wilmington Trust Company, as Second Lien Agent, The Great Atlantic & Pacific Tea Company, Inc. and the subsidiaries of The Great Atlantic & Pacific Tea Company, Inc. party thereto (incorporated by reference to Item 9.01 of Form 8-K filed on August 5, 2009) (File No. 1-4141)
- 10.5 Form of Director Indemnification Agreement (incorporated by reference to Item 9.01 of Form 8-K filed on August 5, 2009) (File No. 1-4141)
- 10.6 Security Agreement, dated as of August 4, 2009, among The Great Atlantic & Pacific Tea Company, Inc., the subsidiaries from time to time party thereto, and Wilmington Trust Company, as collateral agent (incorporated by reference to Item 9.01 of Form 8-K filed on August 5, 2009) (File No. 1-4141)
- 10.7 Investment Agreement, dated as of July 23, 2009, by and among the Company, Erivan Karl Haub, Christian Wilhelm Erich Haub, Karl-Erivan Warder Haub, Georg Rudolf Otto Haub and Emil Capital Partners, LLC, as investor representative and other signatories thereto (incorporated by reference to Item 9.01 of Form 8-K filed on July 24, 2009) (File No. 1-4141).
- 10.8 Investment Agreement, dated as of July 23, 2009, by and among the Company, Yucaipa American Alliance Fund II, LP and Yucaipa American Alliance (Parallel) Fund II, LP and, solely with respect to Section 3.02 and 3.05, Yucaipa Corporate Initiatives Fund I, LP, Yucaipa American Alliance Fund I, LP and Yucaipa American Alliance (Parallel) Fund I, LP, and, solely with respect to Section 5.05, Yucaipa American Alliance Fund II, LLC as investors' representative (incorporated by reference to Item 9.01 of Form 8-K

Edgar Filing: GREAT ATLANTIC & PACIFIC TEA CO INC - Form 10-Q

filed on July 24, 2009) (File No. 1-4141).

- 10.9 Second Amendment to the Amended and Restated Credit Agreement, dated July 23, 2009, by and among the Company and the other Borrowers party thereto, as Borrowers, and the Lenders party thereto, and Bank of America, N.A., as Administrative Agent and Collateral Agent. (incorporated by reference to Item 9.01 of Form 8-K filed on July 24, 2009) (File No. 1-4141).
- 31.1\* Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2\* Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32\* Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \* Filed with this 10-Q

The Great Atlantic & Pacific Tea Company, Inc.

SIGNATURES

-----

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.

Date: October 20, 2009

By: /s/ Melissa E. Sungela

-----  
Melissa E. Sungela, Vice President,  
Corporate Controller  
(Chief Accounting Officer and Duly Authorized Officer)