GREAT ATLANTIC & PACIFIC TEA CO INC
Form 10-Q
July 29, 2010

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

FORM 10-Q

Mark One

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

For the quarterly period ended June 19, 2010

OR

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

For the transition period from _____ to _____

Commission File Number 1-4141

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.
(Exact name of registrant as specified in charter)

Maryland	13-1890974
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2 Paragon Drive
Montvale, New Jersey 07645
(Address of principal executive offices)

(201) 573-9700
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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 X

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 July 26, 2010, the Registrant had a total of 56,168,776 shares of common stock - $1 par value outstanding.

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)

	16 We
	June 19, 2010
Sales	$ 2,564,930
Cost of merchandise sold	(1,801,118)
Gross margin	763,812
Store operating, general and administrative expense	(821,016)
Long-lived asset impairment	(5,398)
Loss from operations	(62,602)
Nonoperating income (loss)	8,277
Interest expense, net	(61,142)
Loss from continuing operations before income taxes	(115,467)
Provision for income taxes	(140)
Loss from continuing operations	(115,607)
Discontinued operations:	
Loss from operations of discontinued businesses, net of tax of $0	(7,115)
Gain on disposal of discontinued operations, net of tax of $0	79
Loss from discontinued operations	(7,036)
Net loss	$ (122,643)
Net loss per share - basic:	
Continuing operations	$ (2.27)
Discontinued operations	(0.13)
Net loss per share - basic	$ (2.40)
Net loss per share - diluted:	
Continuing operations	$ (4.60)
Discontinued operations	(0.23)

Net loss per share - diluted	$ (4.83)
Weighted average number of common shares outstanding	
Basic	53,498,121
Diluted	30,524,651

See Notes to Consolidated Financial Statements

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

	Common Stock		Additional Paid-in	Accumulated	Acc C
	Shares	Amount	Capital	Deficit	
16 Weeks Ended June 19, 2010					
Balance as of 2/27/2010, as previously reported	55,868,129	$ 55,868	$ 498,144	$(1,003,812)	$
Retrospective adoption of new accounting guidance for own share-lending arrangements	-	-	28,277	(28,277)	
Balance as of 2/27/2010, as adjusted	55,868,129	55,868	526,421	(1,032,089)	
Net loss	-	-	-	(122,643)	
Beneficial conversion feature accretion on preferred stock	-	-	(1,481)	-	
Dividends on preferred stock			(4,308)	-	
Preferred stock financing fees amortization	-	-	(534)	-	
Other comprehensive income	-	-	-	-	
Stock options exercised	4,834	5	23	-	
Other share based awards	250,245	250	(1,111)	-	
Balance at end of period	56,123,208	$ 56,123	$ 519,010	$(1,154,732)	$
16 Weeks Ended June 20, 2009					
Balance as of 2/28/2009, as previously reported	57,674,799	$ 57,675	$ 464,679	$ (127,314)	$
Retrospective adoption of new accounting guidance for own share-lending arrangements	-	-	28,277	(28,277)	
Balance as of 2/28/2009, as					

adjusted					
	57,674,799	57,675	492,956	(155,591)	
Net loss	-	-	-	(65,160)	
Other comprehensive income	-	-	-	-	
Stock options exercised	397	-	1	-	
Other share based awards	224,122	224	2,629	-	
Balance at end of period	57,899,318	$ 57,899	$ 495,586	$ (220,751)	$

Comprehensive Loss

	16 Weeks Ended	
	June 19, 2010	June 20, 2009
Net loss	$ (122,643)	$ (65,16
Net unrealized gain on marketable securities, net of tax of $0	-	51
Pension and other post-retirement benefits, net of tax of $0	252	85
Other comprehensive income, net of tax of $0	252	1,37
Total comprehensive loss	$ (122,391)	$ (63,78

See Notes to Consolidated Financial Statements

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

	June 19, 2010
ASSETS	
Current assets:	
Cash and cash equivalents	$ 170,762
Restricted cash	1,691
Accounts receivable, net of allowance for doubtful accounts of $6,731 and $8,728 at June 19, 2010 and February 27, 2010, respectively	165,117
Inventories, net	470,772
Prepaid expenses and other current assets	37,271
Total current assets	845,613
Non-current assets:	

Property:	
Property owned, net	1,351,899
Property leased under capital leases, net	80,960
Property, net	1,432,859
Goodwill	115,197
Intangible assets, net	144,413
Other assets	138,989
Total assets	$ 2,677,071
LIABILITIES & STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt	$ 157,944
Current portion of obligations under capital leases	13,487
Current portion of real estate liabilities	4,250
Accounts payable	229,828
Book overdrafts	65,175
Accrued salaries, wages and benefits	137,635
Accrued taxes	43,361
Other accruals	244,923
Total current liabilities	896,603
Non-current liabilities:	
Long-term debt	838,844
Long-term obligations under capital leases	130,368
Long-term real estate liabilities	329,064
Deferred real estate income	85,598
Other financial liabilities	5,669
Other non-current liabilities	914,907
Total liabilities	3,201,053
Series A redeemable preferred stock - no par value, $1,000 redemption value; authorized - 700,000 shares; issued - 175,000 shares	134,768
Commitments and contingencies (Refer to Note 17)	
Stockholders' equity (deficit):	
Common stock - $1 par value; authorized - 160,000,000 shares; issued and outstanding - 56,123,208 and 55,868,129 shares at June 19, 2010 and February 27, 2010, respectively	56,123
Additional paid-in capital	519,010
Accumulated other comprehensive loss	(79,151)
Accumulated deficit	(1,154,732)
Total stockholders' deficit	(658,750)
Total liabilities and stockholders' deficit	$ 2,677,071

See Notes to Consolidated Financial Statements

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

	June 19, 20
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (122,643
Adjustments to reconcile net loss to net cash used in operating activities (see next page)	82,782
Other changes in assets and liabilities:	
Decrease in receivables	4,139
(Increase) decrease in inventories	(4,401
Decrease (increase) in prepaid expenses and other current assets	1,209
Decrease (increase) in other assets	(1,224
Increase in accounts payable	1,584
Increase (decrease) in accrued salaries, wages and benefits, and taxes	2,059
Decrease in other accruals	(652
Decrease in other non-current liabilities	(21,089
Other operating activities, net	(29
Net cash used in operating activities	(58,265
CASH FLOWS FROM INVESTING ACTIVITIES:	
Expenditures for property	(19,668
Proceeds from disposal of property	1,677
Proceeds from sale of joint venture	-
Decrease in restricted cash	302
Proceeds from maturities of marketable securities	-
Net cash used in investing activities	(17,689
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of long-term debt	800
Principal payments on long-term borrowings	(69
Proceeds under revolving lines of credit	-
Principal payments on revolving lines of credit	-
Proceeds under line of credit	-
Principal payments on line of credit	-
Proceeds from long-term real estate liabilities	-
Principal payments on long-term real estate liabilities	(383
Proceeds from sale-leaseback transaction	-
Principal payments on capital leases	(3,775
Increase (decrease) in book overdrafts	4,710
Deferred financing fees	(21
Dividends paid on preferred stock	(7,000
Proceeds from stock options exercised	28
Net cash used in financing activities	(5,710
Net decrease in cash and cash equivalents	(81,664
Cash and cash equivalents at beginning of period	252,426

Cash and cash equivalents at end of period	$ 170,762
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the year for interest	$ 42,680
Cash paid during the year for income taxes	$ 117

See Notes to Consolidated Financial Statements

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

ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:

	June 19, 20
Depreciation and amortization	$ 70,379
Impairment of long-lived assets	5,890
Nonoperating (income) loss	(8,277
Non-cash interest expense	12,785
Stock compensation (income) expense	(861
Pension withdrawal costs	-
Employee benefit related costs	1,965
LIFO adjustment	856
Asset disposition initiatives in the normal course of business	-
Asset disposition initiatives relating to discontinued operations	4
Non-cash occupancy charges for stores closed in the normal course of business	466
Loss (gain) on disposal of owned property and write-down of property, net	1,025
Gain on disposal of discontinued operations	(79
Amortization of deferred real estate income	(1,371
Total non-cash adjustments to net loss	$ 82,782

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. Basis of Presentation

The accompanying Consolidated Statements of Operations, Consolidated Statements of Stockholders' Deficit and Comprehensive Loss, and Consolidated Statements of Cash Flows for the 16 weeks ended June 19, 2010 and June 20, 2009, and the Consolidated Balance Sheets at June 19, 2010 and February 27, 2010 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 2009 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") Accounting Standards Update ("ASU") relating to accounting for share lending agreements entered into in contemplation of a convertible debt issuance.

During the first quarter of fiscal 2010, our operating results were significantly below those for the prior year and our expectations. Therefore, to improve our performance and to meet our liquidity needs over the next twelve months, including the debt maturity of $165.0 million on June 15, 2011, our Company announced a comprehensive operational and revenue-driven turnaround strategy and is pursuing several new financing initiatives. Financing initiatives include incremental financing through our bank facility, sale-leaseback transactions and the sale of certain non-core assets. However, the completion of all or a portion of these efforts cannot be assured nor can we be assured that such efforts will be sufficient to meet our liquidity needs. In addition, the availability and cost of financing to our Company could be adversely affected if our results of operations do not improve, by future changes in our credit ratings, or by a decline in capital market conditions.

Significant Accounting Policies

A summary of our significant accounting policies may be found in our Annual Report on Form 10-K for the year ended February 27, 2010. There have been no significant changes in these policies during the 16 weeks ended June 19, 2010.

2. Impact of New Accounting Pronouncements

Newly Adopted Accounting Pronouncements

Share Lending Arrangements. In June 2009, the FASB issued new guidance on accounting for one's own-share lending arrangements entered into in contemplation of a convertible debt issuance or other financing, which requires share lending arrangements to be measured at fair value and recognized as a debt issuance cost, and amortized using the effective interest method over the life of the financing arrangement as interest cost. The loaned shares are excluded from basic and diluted earnings per share, unless a default occurs. When a default becomes probable, expense equal to the fair value of the unreturned loaned shares, net of any probable recoveries, must be recognized. This guidance is effective beginning with our fiscal 2010,

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements - Continued
(Dollars in thousands, except share and per share amounts)
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with retrospective application required. The fair values of our share lending agreements with the Bank of America and Lehman Europe were immaterial at inception. Our share lending arrangement with Lehman Europe, who is a party to a 3,206,058 share lending agreement with our Company, is subject to this default provision guidance as a result of their September 15, 2008 bankruptcy filing. In connection with Lehman Europe's default, during the first quarter of fiscal 2010, we recorded a retrospective adjustment of $28.3 million to our third quarter of fiscal 2008 financial statements by charging "Store operating, general and administrative expense" and crediting "Additional paid-in-capital", which represents the fair value of the unreturned shares at September 15, 2008. This expense is reflected in our Consolidated Balance Sheets as of February 27, 2010 and June 19, 2010 as an adjustment to opening "Accumulated deficit" and "Additional paid-in capital". We have been including the loaned shares in our Company's basic and diluted earnings per share since September 15, 2008.

Variable Interest Entities. In June 2009, the FASB issued new accounting guidance relating to consolidation of variable interest entities ("VIEs"), which amends the current accounting guidance for determining whether an entity is a VIE and defining the primary beneficiary. This guidance also requires additional disclosures relating to involvement with a VIE. We adopted this guidance during the first quarter of our fiscal 2010. The adoption of this guidance did not have a material effect on our Consolidated Financial Statements and disclosures.

Fair Value Measurements. In January 2010, the FASB issued new accounting guidance requiring additional disclosures about the different classes of assets and liabilities measured at fair value, valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1 and 2. It also clarified guidance around disaggregation and disclosures of inputs and valuation techniques for Level 2 and Level 3 fair value measurements. The current guidance is effective beginning with the first quarter of our fiscal 2010, except for the new disclosures relating to the Level 3 reconciliation, which are effective for the first quarter of our fiscal 2011. Refer to Note 4 - Fair Value Measurements for our Company's fair value measurements and disclosures.

3. 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 that 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.

Goodwill

During the first quarter of fiscal 2010, our operating results for our Fresh and Pathmark segments were significantly below those for the prior year and our expectations. These declines led to revised short-term and long-term operating forecasts that were significantly lower than previously expected as of the end

of fiscal 2009. All of this resulted in substantially decreased fair values from the fair values we used in conjunction with our annual test conducted during the fourth quarter of fiscal 2009. Accordingly, during the first quarter of fiscal 2010, we concluded that an interim triggering event had occurred requiring us to test the goodwill of the A&P and Waldbaum's reporting units, representing the remaining goodwill balance within our Fresh reportable segment, for impairment. (The Pathmark reporting unit does not have goodwill.) We determined that a triggering event did not occur for the reporting units comprising our Gourmet and Other reportable segments, as the operating results of these reporting units have been largely consistent with our expectations.

As a result, we performed an evaluation to determine whether any portion of the remaining $65.6 million and $31.5 million goodwill balance attributable to the A&P and Waldbaum's reporting units, respectively, had been impaired. We performed the first step of the goodwill impairment testing by estimating the fair value of the A&P and Waldbaum's reporting units using a net present value methodology, which included assumptions for reduced short-term revenue and cash flow from operations based on recent trends, partially offset by an estimate for improvements expected to be delivered by fiscal 2011, and a perpetual growth rate for cash flow in the terminal year of approximately 1.5%. We assumed a market-based weighted average cost of capital of 11.0% to discount the cash flows and a blended tax rate of 42.0%. Our analysis showed that goodwill was not impaired. The fair value of the A&P reporting unit exceeded its carrying value by approximately 50%; whereas, the Waldbaum's reporting unit exceeded its carrying value by approximately 10%. We may need to perform an impairment test in future quarters for our Waldbaum's reporting units if long-term projected cash flows from operations decrease by 20 basis points or if other key assumptions used in our fair value calculation change.

We believe that our estimates are appropriate based on our current trends. However, we can provide no assurance that we will not be required to make adjustments to goodwill in the future due to market conditions or other factors related to our performance, including a decline in our forecasted results resulting from changes in projected on-going profitability, our capital investment budgets or changes in our interest rates.

The carrying amount of our goodwill was $115.2 million at June 19, 2010 and February 27, 2010. Our goodwill allocation by segment at June 19, 2010 and February 27, 2010 was as follows:

	Fresh	Pathmark	Gourmet	Other	Total
Goodwill	$120,817	$321,840	$12,110	$5,974	$460,741
Accumulated impairment losses	(23,704)	(321,840)	-	-	(345,544)
	$ 97,113	$ -	$12,110	$5,974	$115,197

Intangible Assets, net

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 June 19, 2010
Pathmark trademark	Indefinite	$ 60,900	$ -
Loyalty card customer relationships	5	19,200	8,894
In-store advertiser relationships	20	14,720	1,868

Pharmacy payor relationships	13	75,000	14,645
Total		$ 169,820	$ 25,407

During the first quarter of fiscal 2010, based on the magnitude of unexpected operating losses and changes in management's forecasts for our Pathmark reporting unit, we determined that there was an interim triggering event requiring us to evaluate the intangible assets of the Pathmark reporting unit for possible impairment.

We evaluated the fair value of the Pathmark trademark using the relief-from-royalty method. The fair value of the Pathmark trademark exceeded its carrying value, resulting in no impairment. We believe that our estimates are appropriate based on our current trends. However, we can provide no assurance that we will not be required to make adjustments to the carrying value of the Pathmark trademark in future periods if revenues differ from our current projections. We will perform our annual trademark impairment testing during the fourth quarter of fiscal 2010. We currently estimate that the fair value of our trademark would decrease by approximately $20 million for each 100 basis point increase in the discount rate and by approximately $6 million for each 10% decline in revenue from our current projections.

We also evaluated the expected undiscounted cash flows of the Pathmark reporting unit compared to the net book value of the reporting unit, noting no impairment of our amortizable intangible assets. We believe that our estimates are appropriate based on our current assumptions. However, we may be required to record future impairment charges if our results in future periods differ materially from our current projections.

Amortization expense relating to our intangible assets for the first quarter of fiscal 2010 and 2009 was $3.3 million during each period.

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

2010	$ 7,425
2011	10,725
2012	9,670
2013	6,505
2014	6,505
Thereafter	42,683

4. Fair Value Measurements

The accounting guidance for fair value measurement defines and establishes a framework for measuring fair value. Inputs used to measure fair value are classified based on the following three-tier fair value hierarchy:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Directly or indirectly observable inputs other than Level 1 quoted prices in active markets. Our Level 2 liabilities include warrants, which are valued using the Black Scholes pricing model with inputs that are observable or can be derived from or corroborated by observable market data. In addition, our investments in money market funds, which are considered cash equivalents, are classified as Level 2, as they are valued based on their reported Net Asset Value (NAV).

Level 3 - Unobservable inputs that are supported by little or no market activity 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.

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

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.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of June 19, 2010 and February 27, 2010:

		Fair Value Measurements at	
	Total Carrying Value at June 19, 2010	Quoted Prices in Active Markets (Level 1)	Significant Observa Input (Level
Assets:			
Cash equivalents	$ 71,855	$ -	$ 71
Liabilities:			
Series B Warrant	$ 5,669	$ -	$ 5

		Fair Value Measurements at	
	Total Carrying Value at Feb. 27, 2010	Quoted Prices in Active Markets (Level 1)	Significant Observa Input (Level

Assets:			
Cash equivalents	$ 158,695	$ -	$ 158
Liabilities:			
Series B Warrant	$ 13,946	$ -	$ 13

There were no transfers in and out of Level 1 and Level 2 fair value measurements during the 16 weeks ended June 19, 2010.

Level 3 Valuations

We did not have any financial assets or liabilities classified as Level 3 within the fair value hierarchy as of June 19, 2010 and February 27, 2010.

Nonfinancial Assets and Liabilities Measured on a Nonrecurring Basis. Fair value measurements of our nonfinancial assets and nonfinancial liabilities on a nonrecurring basis using Level 3 inputs are primarily used in the impairment analyses of our goodwill and other indefinite-lived intangible assets, our long-lived assets and closed store occupancy costs. Refer to Note 3 - Goodwill and Other Intangible Assets for further information relating to the carrying value of our goodwill and other intangible assets. Long-lived assets and closed store occupancy costs were measured at fair value on a nonrecurring basis using Level 3 inputs, as unobservable inputs were used to measure their fair value. Refer to Note 5 - Valuation of Long-Lived Assets, Note 14 - Discontinued Operations and Note 15 - Asset Disposition Initiatives for more information relating to the valuation of these assets and liabilities.

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements - Continued
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Long-Term Debt

The following table provides the carrying values recorded on our balance sheet and the estimated fair values of financial instruments as of June 19, 2010 and February 27, 2010:

	At June 19, 2010		At
	Carrying Amount	Fair Value	Carryi Amoun
Current portion of long-term debt	$ 157,944	$ 157,018	$ 1
Long-term debt, net of related discount	838,844	756,915	990,3

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.

5. 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.

Impairments due to closure or conversion in the normal course of business
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 16 weeks ended June 19, 2010 and June 20, 2009, we recorded impairment losses on long-lived assets of $0.5 million and $1.1 million, respectively, related to stores that were closed or converted in the normal course of business. These amounts were recorded within "Store operating, general and administrative expense" in our Consolidated Statements of Operations.

Impairments due to unrecoverable assets
During the 16 weeks ended June 19, 2010, as a result of experiencing cash flow losses within certain stores, we determined that a triggering event had occurred that required us to test the related long-lived assets for potential impairment. The carrying value was not recoverable from their undiscounted future cash flows. As a result, we recorded an impairment charge of $5.4 million to partially write down these stores' long-lived assets, which primarily consist of favorable leases and capital leases, with a carrying amount of $40.5 million to their fair value of $35.1 million. These impairment charges, $4.5 million of which related to Pathmark and $0.9 million of which related to SuperFresh, were recorded within "Long-lived asset impairment" in our Consolidated Statements of Operations.

The effects of changes in estimates of useful lives were not material to ongoing depreciation expense. We will continue to monitor our operating results in future periods to determine whether additional impairment testing is warranted for any of our stores experiencing operating losses. We may have to record additional impairments of long-lived assets in the future.

6. Other Accruals

Other accruals at June 19, 2010 and February 27, 2010 were comprised of the following:

	At June 19, 20
Self-insurance reserves	$ 72,605
Deferred taxes	5,058
Closed store and warehouse reserves	58,897
Pension withdrawal liabilities	10,461

GHI Contractual Liability	8,087
Accrued occupancy related costs for open stores	24,734
Deferred income	26,585
Deferred real estate income	2,684
Accrued audit, legal and other	9,576
Accrued interest	19,628
Other postretirement and postemployment benefits	2,674
Accrued advertising	1,043
Dividends payable on preferred stock	290
Other	2,601
Total	$ 244,923

7. Other Non-Current Liabilities

Other non-current liabilities at June 19, 2010 and February 27, 2010 were comprised of the following:

	At June 19, 20
Deferred taxes	$ 9,603
Self-insurance Reserves	205,304
Closed Store and Warehouse Reserves	178,131
Pension Withdrawal Liabilities	88,012
GHI Contractual Liability for Employee Benefits	87,771
Pension Plan Benefits	111,194
Other Postretirement and Postemployment Benefits	36,286
Corporate Owned Life Insurance Liability	59,342
Deferred Rent Liabilities	58,454
Deferred Income	63,446
Unfavorable Lease Liabilities	5,101
Other	12,263
Total	$ 914,907

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

8. Indebtedness and Other Financial Liabilities

Our debt obligations at June 19, 2010 and February 27, 2010 consisted of the following:

	At June 19, 20

5.125% Convertible Senior Notes, due June 15, 2011	$ 157,677
Related Party Promissory Note, due August 18, 2011	10,000
9.125% Senior Notes, due December 15, 2011	12,840
6.750% Convertible Senior Notes, due December 15, 2012	226,741
11.375% Senior Secured Notes, due August 4, 2015	253,928
9.375% Notes, due August 1, 2039	200,000
Borrowings under Credit Agreement	132,900
Other	2,702
	996,788
Less current portion of long-term debt	(157,944
Long-term debt	$ 838,844

* Primarily represents our obligation relating to the $165.0 million 5.125% Convertible Senior Notes, due June 15, 2011, which is recorded at a discount.

Credit Agreement

On July 23, 2009, we entered into an amended $655.0 million Credit Agreement ("Credit Agreement") with Banc of America Securities LLC and Bank of America, N.A., as the co-lead arranger ("Credit Agreement") in connection with our private offering of senior secured notes and the sale of preferred stock. The Credit Agreement expires in December 2012. Subject to borrowing base requirements, the Credit Agreement provides for a term loan of $82.9 million, a term loan of $50.0 million and a revolving credit facility of $522.1 million enabling us to borrow funds and issue letters of credit on a revolving basis. The Credit Agreement also provides for an increase in commitments of up to an additional $100.0 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 and certain owned real estate. Borrowings under the Credit Agreement bear interest based on LIBOR or Prime interest rate pricing. The terms of this agreement restrict our ability to pay cash dividends on common shares. Subject to certain conditions, we are permitted to make bond repurchases and may do so from time to time in the future.

At June 19, 2010, there were $132.9 million of loans and $200.8 million in letters of credit outstanding under the Credit Agreement. At June 19, 2010, after reducing availability for borrowing base requirements, we had $183.0 million available under the Amended Credit Agreement. In addition, we have invested cash available to reduce borrowings under this Credit Agreement or to use for future operations of $70.3 million as of June 19, 2010. The remainder of our cash is in-transit or is used in our stores for operations.

Warrants

Our Series B warrants issued as part of the acquisition of Pathmark on December 3, 2007, are exercisable at $32.40 and expire on June 9, 2015. The Tengelmann stockholders have the right to approve any issuance of common stock under these warrants upon exercise (assuming Tengelmann's outstanding interest is at least 25% and subject to liquidity impairments defined within the Tengelmann Stockholder Agreement). In

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addition, Tengelmann has the ability to exercise a "Put Right" whereby it has the ability to require our Company to purchase our common stock held by Tengelmann to settle these warrants. Based on the rights provided to Tengelmann, 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.

The value of the Series B warrants as of June 19, 2010 and February 27, 2010 was $5.7 million and $13.9 million, respectively, and is included in "Other financial liabilities" on our Consolidated Balance Sheets. Our "Nonoperating income (loss)" for the 16 weeks ended June 19, 2010 and June 20, 2009 was comprised of gains of $8.3 million and losses of $1.9 million, respectively, relating to the market value adjustment for the Series B warrants. The following assumptions and estimates were used in the Black-Scholes model used to value the Series B warrants:

	June 19, 2010	February 27, 2010
Expected life	4.97 years	5.28 years
Volatility	69.6%	68.6%
Dividend yield range	0%	0%
Risk-free interest rate	2.04%	2.30%

Call Option and Financing Warrants

On or about October 3, 2008, Lehman Brothers OTC Derivatives, Inc. or "LBOTC," which accounts for 50% of our 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 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.

9. Redeemable Preferred Stock

On August 4, 2009, our Company issued 60,000 shares of 8.0% Cumulative Convertible Preferred Stock, Series A-T, without par value, to affiliates of Tengelmann Warenhandelsgesellschaft 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 $162.8 million, after deducting approximately $12.2 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 issuance was classified within temporary stockholders equity in our Consolidated Balance Sheets as of June 19, 2010 and February 27, 2010.

Holders of 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 does not meet the liquidity levels required to pay the dividends. 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 16 weeks ended June 19, 2010, we accrued Preferred Stock dividends of $4.3 million and paid Preferred Stock cash dividends of $7.0 million. In addition, during the 16 weeks ended June 19, 2010, we recorded deferred financing fees amortization of $0.5 million and accreted $1.5 million relating to the embedded beneficial conversion features within "Additional paid-in capital".

In connection with our Preferred Stock issuance, we were required to register all of the shares of common stock beneficially owned by Tengelmann and Yucaipa, including the shares issuable upon conversion of the convertible preferred stock, no later than February 6, 2010. Such filing was not made by the required date. According to our shareholder agreements with Tengelmann and Yucaipa, we are required to pay liquidated damages for each day we are in default, at a rate equivalent to 1% of the value of the related shares per year. This default was cured upon filing the required registration statement on May 6, 2010. Tengelmann and Yucaipa have agreed to waive the liquidated damages due to them for failure to timely file the registration statement, the amount of which was not material.

10. Stock Based Compensation

At June 19, 2010, 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 2009 Annual Report on Form 10-K.

The components of our compensation (income) expense related to stock-based incentive plans were as follows:

	For the 16 Weeks Ended	
	June 19, 2010	June 20, 2009
Stock options	(368)	373
Restricted stock units	231	115
Performance restricted stock units	(973)	2,171
Common stock granted to Directors	249	194
Total stock-based compensation (income) expense *	$ (861)	$ 2,853

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* The stock compensation income recorded during the 16 weeks ended June 19, 2010 primarily relates to increased forfeitures.

There were no stock-based grants during the 16 weeks ended June 19, 2010.

Stock options. As of June 19, 2010, approximately $2.6 million, after tax, of total unrecognized compensation expense related to unvested stock option awards, will be recognized over a weighted average period of 2.0 years.

Restricted Stock. The total fair value of restricted stock units that vested during the 16 weeks ended June 19, 2010 was $1.3 million. As of June 19, 2010, approximately $3.2 million, net of tax, of total unrecognized compensation expense relating to restricted stock units granted during fiscal 2009, is expected to be recognized through fiscal 2013.

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Performance Restricted Stock Units. None of the previously granted performance restricted stock units vested during the 16 weeks ended June 19, 2010, since the related performance conditions have not been achieved. We are currently not recognizing stock compensation expense for any of our non-integration related grants due to our determination that the related performance conditions will not be achieved. As of June 19, 2010, we expect to recognize approximately $1.6 million of unrecognized fair value compensation expense for performance restricted stock units granted under our fiscal 2007 executive and non-executive Integration Programs, through fiscal 2011, based on estimates of attaining vesting criteria.

11. Retirement Plans and Benefits

Defined Benefit Plans
The components of our net pension cost were as follows:

	For the 16 Weeks Ende	
	June 19, 2010	June 2
Service cost	$ 2,158	$ 2
Interest cost	8,929	8
Expected return on plan assets	(8,853)	(7
Amortization of:		
Net prior service cost	81	
Actuarial loss	585	1
Special Termination benefits	50	
Net pension cost	$ 2,950	$ 5

As of June 19, 2010, we contributed approximately $2.2 million to our defined benefit plans. We plan to contribute approximately $4.8 million to our plans during the remainder of fiscal 2010.

Postretirement Plans

The components of our net postretirement benefits cost were as follows:

	For the 16 Weeks End	
	June 19, 2010	June 20,
Service cost	$ 201	$
Interest cost	571	
Amortization of:		
Prior service credit	(264)	
Actuarial gain	(150)	
Net postretirement benefits cost	$ 358	$

In March 2010, the Patient Protection and Affordable Care and the Health Care and Education Affordability Reconciliation Acts (the "Healthcare Reform") were signed into law. The Healthcare Reform legislation made a number of significant changes that are expected to increase our healthcare related postretirement benefit costs in the future, which include the elimination of lifetime maximums on healthcare benefits, a requirement to provide healthcare coverage for children up to the age of 26, and the imposition of an exercise tax on high cost healthcare plans. In June 2010, we performed a preliminary analysis to quantify the potential impact of the major provisions of the Healthcare Reform using census data and other assumptions consistent with the calculation of our postretirement obligation as of February 27, 2010. Based on this analysis, we determined that the impact of the healthcare legislation is expected to be below

5% of our Accumulated Postretirement Benefit Obligation, which was not deemed significant enough to require remeasurement during the first quarter of our fiscal 2010. Our current estimates are subject to change due to changes in actuarial assumptions and further clarifications provided by additional regulatory guidance expected to be released later this year and in future years. We will perform a comprehensive valuation and will reflect the impact of the Healthcare Reform on our postretirement benefits obligation during the fourth quarter of our fiscal 2010.

GHI Contractual Obligation

As of June 19, 2010 and February 27, 2010, the fair value of our contractual obligation to Grocery Hauler Inc.'s (GHI's) employees was $95.9 million and $95.8 million, respectively, using discount rates of 5.500% and 5.750%, respectively, which were derived from the published zero-coupon AA corporate bond yields. Our contractual obligation relates to pension benefits for GHI's employees and 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 16 weeks ended June 19, 2010 and June 20, 2009, we recognized service costs of $0.2 million during each period, and interest expense of $4.4 million and $6.4 million, respectively, representing interest accretion on this obligation, as well as the impact of the lower discount rates used to value this obligation, resulting from declines in the published zero-coupon AA corporate bond yields during each period. During the 16 weeks ended June 19, 2010, benefit payments of $4.6 million were made by the Pathmark Pension Plan.

Multi-employer Union Pension Plans

We participate in various multi-employer pension plans which are administered jointly by management and union representatives. During the fourth quarter of fiscal 2008, we made a standard withdrawal from one of our multi-employer pension plans, to limit our pension benefit obligation to our employees, as we believed that this plan was likely to have funding challenges and would require higher contributions in the future, and recorded standard withdrawal liability of $28.9 million. During the first quarter of fiscal 2010, we received preliminary information indicating that the trustees of the multi-employer pension plan have voted to go into a mass withdrawal. Formal notification has not been received. Based on the preliminary information, we may have a potential additional withdrawal obligation of up to $50 million payable over a period of up to 25 years in the future. This preliminary estimate is subject to change due to the uncertainty as to the number of participants that will be subject to mass withdrawal and the finalization of asset values and calculations by the multi-employer pension plan.

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12. Interest Expense, net

Interest expense is comprised of the following:

	For th
	June 19, 20
$655.0 million Credit Agreement	$ 4,005
Related Party Promissory Note, due August 2, 2011	187
11.375% Senior Secured Notes, due August 1, 2015	9,150
9.125% Senior Notes, due December 15, 2011	360
5.125% Convertible Senior Notes, due June 15, 2011	2,601
6.750% Convertible Senior Notes, due December 15, 2012	5,295
9.375% Notes, due August 1, 2039	5,815
Capital Lease Obligations and Real Estate Liabilities	15,442
Self Insurance and GHI Interest	5,119
GHI discount rate adjustment and COLI non-cash interest	3,889
Amortization of Deferred Financing Fees and Discounts	8,734
Other	575
Total Interest Expense	61,172
Interest income	(30

Interest expense, net	$ 61,142

13. Income Taxes

During the 16 weeks ended June 19, 2010 and June 20, 2009, our valuation allowance increased by $48.6 million and $23.9 million, respectively, to reflect generation of additional operating losses. 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 June 19, 2010, with a few exceptions, 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. At June 19, 2010 and February 27, 2010, we had unrecognized tax benefits of $1.4 million, which were recorded within deferred tax liabilities in "Other accruals". We do not expect that the amount of our gross unrecognized tax positions will change significantly in the next 12 months. Any future decrease in our Company's gross unrecognized tax positions would require a reevaluation of our Company's valuation allowance maintained on our net deferred tax asset and, therefore, is not expected to affect our effective tax rate. Our Company classifies interest and penalty expense related to unrecognized tax benefits within "Benefit from (provision for) income taxes" in our Consolidated Statements of Operations. For the 16 weeks ended June 19, 2010 and June 20, 2009, no amounts were recorded for interest and penalties within "Provision for income taxes" in our Consolidated Statements of Operations.

The effective tax rate on continuing operations of 0.1% and 0.7%, respectively, for the 16 weeks ended June 19, 2010 and June 20, 2009, respectively, varied from the statutory rate of 35%, primarily due to state and local income taxes, the increase in our valuation allowance and the impact of the Pathmark financing.

At June 19, 2010, we had federal Net Operating Loss ("NOL") carryforwards of $773.8 million, which will expire between fiscal 2023 and 2030, some of which are subject to an annual limitation. The federal NOL carryforwards include $7.4 million related to the excess tax deductions for 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, we had state loss carryforwards of $1.0 billion that will expire between fiscal 2010 and fiscal 2030. Our Company's general business credits consist of federal and state work incentive credits, which expire between fiscal 2010 and fiscal 2030, some of which are subject to an annual limitation.

At June 19, 2010 and February 27, 2010, we had net current deferred tax liabilities of $5.1 million and $3.3 million, respectively, which were included in "Other Accruals" in our Consolidated Balance Sheets and non-current deferred

tax liabilities of $9.6 million and $11.4 million, respectively, which were recorded in "Other non-current liabilities" in our Consolidated Balance Sheets.

14. 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.

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

	For the 16 Weeks Ended June 19, 20			
	Balance at 2/27/2010	Interest Accretion (1)	Adjustments(2)	Util
2007 Events				
Occupancy	$ 96,909	$ 2,334	$ -	$
Pension withdrawal	58,015	1,107	-	
2007 events total	154,924	3,441	-	
2005 Event				
Occupancy	58,974	983	-	
2003 Events				
Occupancy	22,494	420	-	
Total	$ 236,392	$ 4,844	$ -	$

(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 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 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 business" on our Consolidated Statements of Operations.

(3) Occupancy utilization represents payments made during those periods for rent, common area maintenance and real estate taxes. Pension withdrawal utilization represents payments made to the union pension fund during the period.

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Summarized below are the payments made to date 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	$ 34,866	$ 2,650
Expected future pension withdrawal payments	57,343	-
Total severance and pension withdrawal payments expected to be incurred	92,209	2,650
Total occupancy payments made to date	87,098	60,220
Expected future occupancy payments, excluding interest accretion	92,725	56,948
Total occupancy payments expected to be incurred, excluding interest accretion	179,823	117,168
Total severance and occupancy payments made to date	121,964	62,870
Expected future pension withdrawal and occupancy payments, excluding interest accretion	150,068	56,948
Total severance, pension withdrawal and occupancy payments expected to be incurred, excluding interest accretion	$ 272,032	$ 119,818

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 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:

	June 19, 201		
	2007 Events	2005 Event	20
Other accruals	$ 26,142	$ 10,280	$
Other non-current liabilities	$ 123,926	$ 46,668	$

February 27, 2

	2007 Events	2005 Event	20
Other accruals	$ 28,528	$ 10,773	$
Other non-current liabilities	$ 126,396	$ 48,201	$

We evaluated the reserve balances as of June 19, 2010 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.

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15. Asset Disposition Initiatives

In addition to the events described in Note 14 - 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.

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

	For the 16 Weeks Ended June 19, 20			
2005 Event	Balance at 2/27/2010	Interest Accretion (1)	Adjustments(2)	Uti
Continuing Operations				
Health benefits	$ 687	$ -	$ -	$
2005 event total	687	-	-	
2001 Event				
Continuing Operations				
Occupancy	6,324	127	593	
Discontinued Operations				
Occupancy	10,009	177	-	
2001 event total	16,333	304	593	
1998 Event				
Continuing Operations				
Occupancy	4,098	27	-	
Pension withdrawals and health benefits	666	-	-	
Discontinued Operations				

Occupancy	13	-	-	
1998 event total	4,777	27	-	
Total	$ 21,797	$ 331	$ 593	$

(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 businesses" 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 operations and "Loss from operations of discontinued businesses" for discontinued operations on our Consolidated Statements of Operations.

For the 16 Weeks Ended June 19, 2010

For the 16 weeks ended June 19, 2010, we recorded an adjustment for additional occupancy related costs of $0.6 million for the 2001 event due to the timing of real estate tax income received from subtenants of two properties.

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

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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	$ 49,086	$ 28,205	$ 30,839	$
Expected future severance payments	596	-	625	
Total severance payments expected to be incurred	49,682	28,205	31,464	
Total occupancy payments made to date	13,856	66,574	119,589	
Expected future occupancy payments, excluding interest accretion	-	16,438	3,741	

Total occupancy payments expected to be incurred, excluding interest accretion	13,856	83,012	123,330	
Total severance and occupancy payments made to date	$ 62,942	$ 94,779	$ 150,428	$
Expected future severance and occupancy payments, excluding interest accretion	596	16,438	4,366	
Total severance and occupancy payments expected to be incurred, excluding interest accretion	$ 63,538	$ 111,217	$ 154,794	$

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:

	June 19, 2010			
	2005 Event	2001 Event	1998 Event	
Other accruals	$ 319	$ 2,897	$ 2,470	$
Other non-current liabilities	$ 277	$ 13,541	$ 1,896	$

	February 27, 2010			
	2005 Event	2001 Event	1998 Event	
Other accruals	$ 336	$ 2,992	$ 2,235	$
Other non-current liabilities	$ 351	$ 13,341	$ 2,542	$

We evaluated the reserve balances as of June 19, 2010 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

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subsidized properties, severance and benefits, and pension withdrawal liabilities, and adjustments to the reserve balances may be recorded in the future, if necessary.

16. Earnings (Loss) 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 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 historical loss per share calculations as their effect would be antidilutive:

	16 Weeks Ended June 19, 2010	16 Weeks Ended June 20, 2009
Stock options	1,988,469	1,853,239
Warrants	686,277	686,277
Performance restricted stock units	218,294	757,888
Restricted stock units	1,080,710	342,377
Financing warrant	11,278,988	11,278,988
Convertible debt	8,086,769	3,553,806
Preferred stock	35,000,000	-

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

	16 Weeks Ended June 19, 2010
Loss from continuing operations	$ (115,607)
Preferred stock dividends	(4,308)
Beneficial conversion feature amortization	(1,481)
Loss from continuing operations - basic	(121,396)
Adjustments for convertible debt (1)	(10,655)
Adjustments on Other financial liabilities (2)	(8,277)
Loss from continuing operations-diluted	$ (140,328)

Weighted average common shares outstanding	55,926,065
Share lending agreement (3)	(2,427,944)
Common shares outstanding-basic	53,498,121
Effect of dilutive securities:	
Convertible debt (1)	3,192,219
Convertible financial liabilities (2)	(26,165,689)
Common shares outstanding-diluted	30,524,651

(1) We have debt instruments with a bifurcated conversion feature that were recorded at a significant discount. (Refer to Note 8 - 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 consider the combined impact of the numerator and 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 8 - Indebtedness and Other Financial Liabilities). These warrants are marked-to-market on our Consolidated Statements of Operations. 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 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) As of June 19, 2010 and June 20, 2009, we had 5,634,002 and 8,134,002, respectively, of loaned shares under our share lending agreements, which were considered issued and outstanding. 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. This treatment is consistent with the new accounting guidance relating to accounting for own share lending arrangements in contemplation of convertible debt issuance, which we adopted during the 16 weeks ended June 19, 2010 (Refer to Note 2 - Impact of New Accounting Pronouncements). For the 16 weeks ended June 19, 2010 and June 20, 2009, weighted average common shares relating to share lending agreements of 2,427,944 and 4,927,944, respectively, were excluded from the computation of earnings per share.

17. 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 expires on September 29, 2018. 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 its services, C&S is paid an annual fee and has incentive income opportunities based upon our cost savings and increases in retail sales volume. The agreement also provides that we will purchase virtually our entire 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 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 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. On June 1, 2010, the Appellate Division reversed the trial court's denial of Pathmark's motion for summary judgment and entered judgment in favor of Pathmark with respect to the $6 million escrow, and CPS has appealed this judgment.

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 June 19, 2010, 181 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 $561.9 million, which could be partially or totally offset by reassigning or subletting these leases.

Legal Proceedings

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, Dolores Guiddy, 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 completed discovery and our Company is proceeding with motions for summary judgment and to decertify the class. If our Company fails to prevail on these motions, the matter will likely be scheduled for trial in early 2011. Our Company at this time does not believe that Plaintiffs have established in discovery a proper basis for class certification, nor does our Company believe on the basis of discovery that Plaintiffs damages are material.

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.

18. Reportable Segments

Reportable 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.

We have four reportable segments: Fresh, Pathmark, Gourmet and Other. The Other segment includes our Food Basics and Wine, Beer & Spirits businesses.

The accounting policies for these segments are the same as those described in the summary of significant accounting policies included in our Fiscal 2009 Annual Report. 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 16 weeks ended	
	June 19, 2010	June 20, 2009
Grocery (1)	$ 1,758,844	$ 1,939,600
Meat (2)	491,482	526,771
Produce (3)	314,604	323,872
Total	$ 2,564,930	$ 2,790,243

(1) The grocery category includes grocery, frozen foods, dairy, general merchandise/health and beauty aids, wine, beer & spirits, and pharmacy.

(2) The meat category includes meat, deli, bakery and seafood.

(3) The produce category includes produce and floral.

	For the 16 Weeks En	
	June 19, 2010	J
Sales		
Fresh	$ 1,278,569	$
Pathmark (1)	1,111,401	
Gourmet	82,872	
Other	92,088	
Total sales	$ 2,564,930	$
Segment income (loss)		
Fresh	$ 13,472	$
Pathmark (1)	(24,808)	
Gourmet	6,511	
Other	737	
Total segment (loss) income	(4,088)	
Corporate (2)	(47,242)	
Reconciling items (3)	(11,272)	
Loss from operations	(62,602)	
Nonoperating income (loss)	8,277	
Interest expense, net	(61,142)	
Loss from continuing operations before income taxes	$ (115,467)	$

	For the 16 Weeks E	
	June 19, 2010	J
Segment depreciation and amortization		
Fresh	$ 23,392	$
Pathmark (1)	26,771	
Gourmet	2,751	
Other	1,663	
Total segment depreciation and amortization	54,577	
Corporate	15,802	
Total depreciation and amortization	$ 70,379	$

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

(1) Includes results from Fresh stores that have been subsequently converted to Pathmark stores.
(2) Represents a $5.1 million decline in corporate and administrative costs, which was more than offset by a $7.5 million increase in corporate costs attributable to store-related activities, primarily benefits and occupancy